

**CITY OF VAUGHAN
AUDIT COMMITTEE
AGENDA**

This is an Electronic Meeting.

Monday, January 25, 2021

10:00 a.m.

Electronic Meeting

Vaughan City Hall

	Pages
1. CONFIRMATION OF AGENDA	
2. DISCLOSURE OF INTEREST	
3. COMMUNICATIONS	
4. DETERMINATION OF ITEMS REQUIRING SEPARATE DISCUSSION INCLUDING MEMBERS RESOLUTION(S)	
1. 2020 EXTERNAL AUDIT PLANNING REPORT Report of the Deputy City Manager, Corporate Services, CFO and City Treasurer, with respect to the above.	3
2. 2020 INTERNAL AUDIT RISK BASED WORK PLAN STATUS UPDATE Report of the Director of Internal Audit with respect to the above.	34
3. 2021 INTERNAL AUDIT RISK BASED WORK PLAN Report of the Director of Internal Audit with respect to the above.	42
4. REQUEST FOR APPROVAL OF A SINGLE SOURCE PROCUREMENT FOR AN EXTERNAL QUALITY ASSESSMENT Report of the Director of Internal Audit with respect to the above.	50
5. ADOPTION OF ITEMS NOT REQUIRING SEPARATE DISCUSSION	
6. CONSIDERATION OF ITEMS REQUIRING SEPARATE DISCUSSION	

7. NEW BUSINESS

8. ADJOURNMENT

Audit Committee Report

DATE: Monday, January 25, 2021

WARD(S): ALL

TITLE: 2020 EXTERNAL AUDIT PLANNING REPORT

FROM:

Michael Coroneos, Deputy City Manager Corporate Services, CFO and City Treasurer

ACTION: DECISION

Purpose

The Audit Committee's approval is requested on the 2020 External Audit Planning Report for the year ended December 31, 2020 prepared and presented by KPMG.

Report Highlights

- The statutory financial statements are a requirement prescribed by the Municipal Act, 2001 that shows the results of operations for the fiscal year and the financial position at the end of the fiscal year.
- The Municipal Act requires that statutory financial statements be audited by an independent external auditor.
- KPMG, our external auditor, has prepared the 2020 External Audit Planning Report for review and approval by the Audit Committee.

Recommendations

1. The Audit Planning Report for the year ending December 31, 2020 be approved.
2. That the KPMG Audit Planning Report for the year ending December 31, 2020 and the presentation by KPMG be received. (Attachment 1)

Background

Section 296(1) of the Municipal Act, 2001 states, "a municipality shall appoint an auditor licensed under the Public accounting Act, 2004 who is responsible for:

- a) Annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit; and
- b) Performing duties required by the municipality or local board.

KPMG was appointed as our external auditor in 2018 through an RFP procurement process for a period of two years with the ability to extend for three optional one-year terms subject to satisfactory performance and budget approval. The 2020 audit will be the first year of the three optional one-year terms.

KPMG performs the following separate audits for the City of Vaughan:

- The Corporation of the City of Vaughan – Consolidated
- The Corporation of the City of Vaughan Public Library Board
- Board of Management for the Kleinburg Business Improvement Area
- The Corporation of the City of Vaughan Trust Funds
- Tourism Vaughan Corporation
- Statement of Revenue and Expenditures and Fund Balance of the Corporation of the City of Vaughan – Mayor’s Gala and Golf Events
- Vaughan Holdings Inc. (VHI) (owns 20.5% of outstanding Alectra Inc.)
- Hydro Vaughan Energy Corporation (HVEC)
- 1446631 Ontario Inc. (not active)

Section 4.2.3 of the Audit Committee Charter requires the committee to:

“review the External Auditor’s proposed audit scope and approach, including Coordination of efforts with Internal Audit.”

Before the inception of the Audit Committee, the CFO and the Director of City Financial Services/Deputy Treasurer approved KPMG audit plans.

The fiscal 2020 interim audit was performed in early December 2020 and the year-end audit will be performed in March and April of 2021 and will be presented to the Audit Committee in June 2021.

Previous Reports/Authority

N/A

Analysis and Options

N/A

Financial Impact

N/A

Broader Regional Impacts/Considerations

N/A

Conclusion

That the 2020 External Audit Planning Report for the year ended December 31, 2020 prepared and presented by KPMG be approved.

For more information, please contact: Dean Ferraro, Director of City Financial Services/Deputy Treasurer Ext. 8272 or Nancy Yates, Controller, Ext. 8984

Attachments

1. Audit Planning Report for the year ending December 31, 2020

Prepared by

Nancy Yates CPA, CA, BComm
Controller, Ext. 8984

Approved by

A handwritten signature in blue ink, appearing to read "Michael Coroneos".

Michael Coroneos
Deputy City Manager,
Chief Financial Officer & Treasurer

The Corporation of The City of Vaughan

Audit Planning Report
for the year ending December 31, 2020



Licensed Public Accountants

Prepared December 1, 2020

Presented January 25, 2021

kpmg.ca/audit



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KPMG contacts

The contacts at KPMG in connection with this report are:



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Executive summary

The purpose of this Audit Planning Report is to assist you, as a member of the Audit Committee, in your review of the planning of our audit of the consolidated financial statements ("financial statements") of The Corporation of The City of Vaughan (the "City") as at and for the year ending December 31, 2020.

COVID-19

COVID-19 is undoubtedly going to have an impact to the City's operations and the City's financial reporting. See page 4.

Group audit scope

Our group audit consists of:

- Full scope audits:
 - The Corporation of the City of Vaughan
 - Vaughan Holdings Inc. ("VHI") (owns and accounts for 100% of the City's investment in Alectra Inc.)
 - Alectra Inc. – the lead engagement partner is Kevin Travers, who is also the lead engagement partner for the City's consolidated financial statements.
- Non-significant components, however these components are required to prepare statutory financial statements under the Municipal Act:
 - City of Vaughan Public Library Board – ("Library")
 - Board of Management for the Kleinburg Business Improvement Area
 - Tourism Vaughan Corporation
 - Hydro Vaughan Energy Corporation
 - 1446631 Ontario Inc.
- Non-component, disclosure only:
 - The Corporation of the City of Vaughan Trust Funds

Audit and business risks

Our audit is risk-focused. We will discuss these risks with you during the upcoming meeting. The audit of the City's consolidated financial statements is considered a group audit which includes several components. In planning our audit, we have taken into account key areas of focus for financial reporting.

See pages page 6 to 11.

Audit materiality

Materiality has been determined based on consolidated revenue. We have determined group materiality to be \$12,000,000 (2019 - \$17,000,000).

Materiality will be set at lower thresholds where necessary to meet local subsidiary financial statement audit requirements. See page 12.

Proposed fees

The engagement letter includes the fees for all professional services provided to the City and related entities. A copy of the engagement letter can be obtained from management.

Executive summary

Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

Current developments and audit trends

Please refer to pages 16 to 20 for relevant accounting and auditing changes relevant to the City and relevant audit trends.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, City Council, and Management of the City. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly going to have an impact to the City's business and the City's financial reporting.

Potential financial reporting implications	Potential implications on internal control over financial reporting
<p>Refer to our COVID-19 Financial Reporting site:</p> <ul style="list-style-type: none"> • Events or conditions that cast significant doubt regarding going concern • Impairment of non-financial assets (e.g., tangible capital assets) <ul style="list-style-type: none"> ◦ Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions) • Impairment of financial assets including investments • Fair value measurements • Employee benefits and employer obligations • Provisions, contingencies and onerous contracts • Impact on funding received from federal and provincial governments • Impact on programs and operations managed by the City • Impact on capital projects managed by the City • Subsequent events 	<ul style="list-style-type: none"> • Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in Internal Control over Financial Reporting (ICFR) or to bias estimates. • New or enhanced controls to respond to new financial reporting risks or elimination of on-site preventative controls. • Consideration of changes in the individuals performing the control (e.g. re-directing the performance to head-office or realignment efforts). • Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees. • Revisions may be needed for planned internal audit programs. • Reconsideration of ICFR impacts related to broader IT access given remote work arrangements.
Potential financial reporting implications related to disclosures	Other potential considerations
<p>Refer to our COVID-19 Financial Reporting site:</p> <ul style="list-style-type: none"> • Events and conditions that cast significant doubt regarding going concern • New accounting policies • Significant management judgements in applying accounting policies • Major sources of estimation uncertainty that have significant risk • Liquidity risks 	<ul style="list-style-type: none"> • Reporting material changes in ICFR • Cyber security risks (e.g., wire transfers schemes) • Possible delay in filing annual financial statements

COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements.

Potential audit implications	Potential audit implications
<p>Planning and risk assessment:</p> <ul style="list-style-type: none">• Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements.• Understanding the potential financial reporting impacts, the changes in the City's environment, and changes in the City's system of internal control, and their impact on our:<ul style="list-style-type: none">◦ identified and assessed risks of material misstatement.◦ audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures. <p>Executing:</p> <ul style="list-style-type: none">• Remote auditing:<ul style="list-style-type: none">◦ Increased use of other collaboration tools (Teams, Skype, etc.) and the need for written management acknowledgement for their use, as necessary◦ Potential increased use of electronic evidence (and understanding the City's processes to provide such evidence to us)• Timing of procedures may need to change:<ul style="list-style-type: none">◦ The ability for the audit to commence (interim and/or year-end) is highly fluid and dependent on management's ability to physically or digitally access underlying documents in a safe and healthy manner, including access to IT systems.◦ Tests of controls may need to be deferred (to allow the City to put new or revised controls in operation and to be able to re-perform such controls).	<ul style="list-style-type: none">• Understanding the City's potential financial reporting impacts, the changes in the City's environment, and changes in the City's system of internal control, and their impact on our:<ul style="list-style-type: none">◦ design of the analytical procedures◦ need to perform additional procedures or early audit work◦ timing considerations related to the interim review and reporting back to management and the Audit Committee of any significant findings.

Audit risks

Professional requirements	Why is it significant?
Fraud risk from revenue recognition related to revenue transactions that are not in the normal course of business and related to recognition of deferred revenue.	This is a presumed fraud risk. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business as well management's calculation of deferred revenue – obligatory reserve funds.

Our audit approach

Our audit methodology incorporates the required procedures in professional standards to address this risk.

Our audit approach will consist of evaluating the design and implementation of selected relevant controls. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override and we design search filters that allow us to identify any unusual journal entries.

As part of our audit approach to address the inherent risk of error in revenue recognition, KPMG substantively tests revenues (both recognized and amounts held as deferred at year end) and recalculates management's calculation of deferred revenue – obligatory reserve funds through auditing management's methodology.

Professional requirements	Why is it significant?
Fraud risk from management override of controls.	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

We will take a risk-based approach tailored to the City when designing substantive procedures and selecting specific transactions for testing. We will continue to make use of technology to extract our risk-based sample from the entire population of journal entries. We will consider the potential impact of COVID-19 when identifying areas which may be subject to additional risk whether due to fraud or error in this regard.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Cash and Investments	Material account balances and disclosures. Valuation of investments and concerns over decline in fair value due to COVID-19.
Tangible Capital Assets	Risk of material misstatement related to existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets additions, and contributed assets.
Our audit approach	
Cash and Investments <i>COVID-19 Implications:</i> <ul style="list-style-type: none"> – To assess if there is a loss in value of the portfolio investment and whether such a decline is other than temporary. Perform audit procedures to assess whether a write-down is necessary. <i>Substantive audit procedures:</i> <ul style="list-style-type: none"> – Review year-end bank and investment reconciliations and substantive testing and significant reconciling items. – Substantive test of details over additions and disposals of investments. – Obtain confirmations from third party financial institutions. – Review of financial statement note disclosure in accordance with Public Sector Accounting Standards (PSAS). 	
Tangible Capital Assets <ul style="list-style-type: none"> – Substantive test of details over additions (including contributed tangible capital assets) and disposals. – Review amortization policy and recalculations. – Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and that amortization expense commences on a timely basis. – Review of financial statement note disclosure in accordance with PSAS. – We will agree fair value estimates of contributed tangible capital assets to supporting third party documentation or estimated by the City; we will perform procedures to address the new CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to valuation estimates. – We will also perform required procedures to assess the potential risks with respect to impairment of assets as a result of the ongoing COVID-19 pandemic. Based on the nature of the City's operations, it is not expected that this will be a significant risk during the audit. 	

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Taxes Receivable and Taxation Revenue	Material account balances and disclosures related to taxation revenue and accuracy of timing of revenue recognition.
Deferred Revenue – obligatory reserve funds	Risk of material misstatement due to management assessment and judgment involved.
Employee Future Benefits (EFBs)	Risk of material misstatement related to accuracy and valuation of the estimate involved in employee future benefits.

Our audit approach

Taxes Receivable and Taxation Revenue:

- Recalculate tax revenue using approved tax rates and assessment.

Deferred Revenue – obligatory reserve funds:

- Update our understanding of the activities over initiation, authorization, processing, recording and reporting.
- Review the City-prepared calculation of deferred revenue balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.
- Recalculation of interest allocation.
- Inquire with management if there were any breaks given to developers due to COVID-19 and perform audit procedures on the financial reporting impact, if relevant.

Employee Future Benefits:

- Reliance on actuaries (management specialist) engaged by the City; update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.
- Assess the method, data, and assumptions used by actuary and management in calculation of the EFB liability for reasonableness.
- We will perform audit procedures to address the new CAS 540, Auditing Accounting Estimates and related disclosure requirements related to the estimates involved. Communicate with actuaries and test HR data provided to the actuaries, if applicable.
- Review financial statement disclosures in accordance with PSAS.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Expenses – Salaries and Benefits	Risk of material misstatement related to accuracy and occurrence of expenses.
Accounts Payable, Accrued Liabilities, and Expenses	Risk of material misstatement related to completeness of liabilities.
Contingencies	Risk of material misstatement related to completeness of contingencies and corresponding disclosures.
Our audit approach	
Expenses – Salaries and Benefits:	
<ul style="list-style-type: none"> – Test and evaluate design and operating effectiveness of selected controls over payroll. – Test of employment expenses for a sample of employees by verifying payroll records to HR contracts and collective agreements. – Substantive verification and recalculation of payroll-related accruals. – Ensure any collective bargaining agreements are evaluated for retroactive liabilities. 	
Accounts Payable, Accrued Liabilities, and Expenses:	
<ul style="list-style-type: none"> – Test and evaluate design and operating effectiveness of selected controls over payables and procurement cycle. – Perform substantive test of details on selected non-payroll expenditures. – Examine significant accrued liabilities for existence, accuracy and completeness. – Search for unrecorded liabilities. 	
Contingencies:	
<ul style="list-style-type: none"> – Perform a detailed review of Council meeting minutes. – Direct communication with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded. – Significant findings review with management during planning and completion stages of the audit engagement. 	

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Contaminated sites liability	To ensure the completeness of liabilities.
Trust funds	Statutory audit requirement.
Long-term debt	Material account balance and disclosures.
Our audit approach	
Contaminated sites liability:	
<ul style="list-style-type: none"> – Update our understanding on the controls and practices in place at the City surrounding recognition, measurement and completeness of contaminated sites and review and testing of management's key assumptions and estimates. – Make inquiries of key stakeholders to validate the completeness assertion of contaminated sites. 	
Trust funds:	
<ul style="list-style-type: none"> – Direct confirmation of cash and investments with financial institutions. – Vouch selected revenue and expense transactions to source documents. 	
Long-term debt:	
<ul style="list-style-type: none"> – Obtain and review any new or amended agreements for debenture debt issued by the City, including review of Council and York Region by-laws on the issuance of debt. – Confirmation with creditors of debt as at year-end. – Review disclosures in accordance with PSAS. 	

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Investment in Hydro Corporations	To ensure the accuracy of the modified equity accounting for the City's investment in Hydro Corporations.
Consolidation (City and all components)	To ensure the completeness and accuracy of the consolidated information.
Our audit approach	
<p>Investment in Hydro Corporations:</p> <ul style="list-style-type: none"> – Obtain management's accounting schedule over its investment in each of the Hydro Corporations. – The investment, through Vaughan Holdings Inc., includes the City's investment in Alectra Inc., which is a significant component of the City's consolidated financial statements and is therefore subject to a full scope audit performed by a component audit team that is led by the same lead audit engagement partner, Kevin Travers, as that of the City's group audit. – Review the calculation of the modified equity accounting and agree certain inputs to supporting documentation, such as the entities' net income, dividends received and issued. 	
<p>Consolidation (City and all components):</p> <ul style="list-style-type: none"> – Review operations of and perform audit procedures for the consolidation of City of Vaughan Public Library Board, Tourism Vaughan Corporation, and KBIA and the investment accounting for the Hydro Vaughan Corporations. – Review the eliminating entries as prepared by management for accuracy and completeness. – Review financial statement note disclosures related to the Hydro Vaughan Corporations, including the City's share of net income, dividends, etc. 	

Materiality

Materiality determination	Comments	Group amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$17,000,000	\$12,000,000
Benchmark	Based on an estimate of consolidated revenue for the year. This benchmark is consistent with the prior year.	\$616,400,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2%	2%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was \$850,000.	\$600,000
Significant Component Statutory Audit Materiality:		Amount
VHI	Materiality for the audit of VHI, determined to be within the City of Vaughan's group audit requirements. The corresponding amount for the prior year's audit was \$5,500,000.	\$4,000,000
Alectra Inc.	Group Materiality for the audit of Alectra. Alectra materiality specific to the City of Vaughan group audit – 20.5% The corresponding amounts for the prior year's audit was \$49,000,000 for group materiality and \$10,045,000 for materiality specific to City of Vaughan.	\$50,800,000 \$10,414,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to the Audit Committee:



Corrected audit misstatements

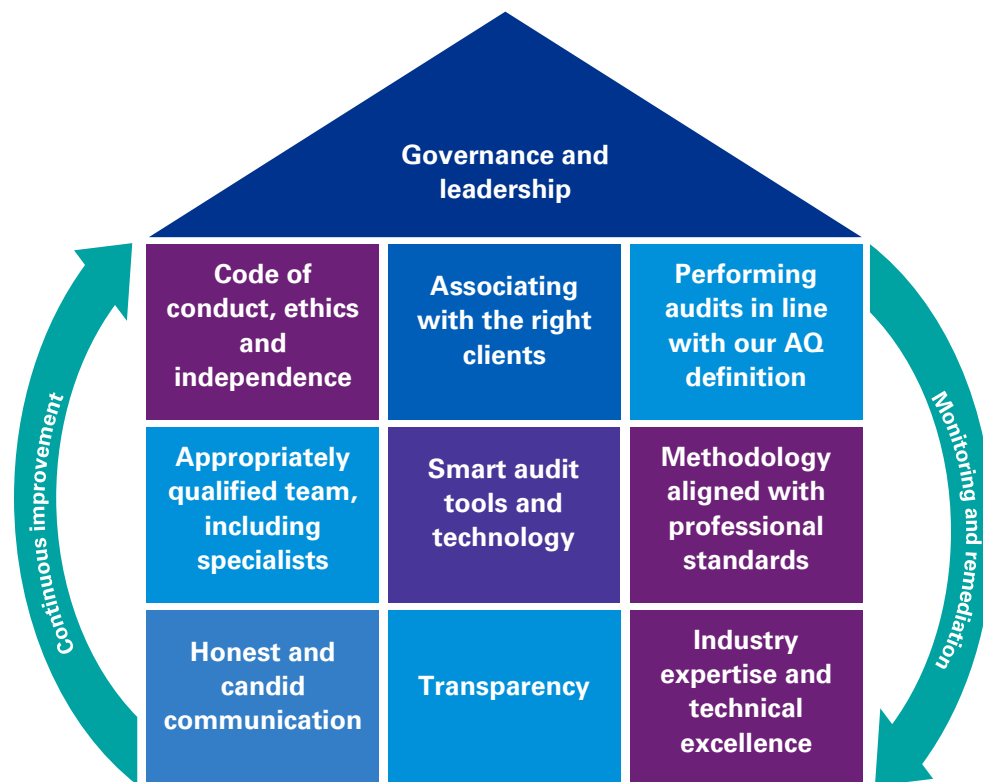


Uncorrected audit misstatements

Audit Quality Matters

Audit quality and transparency

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

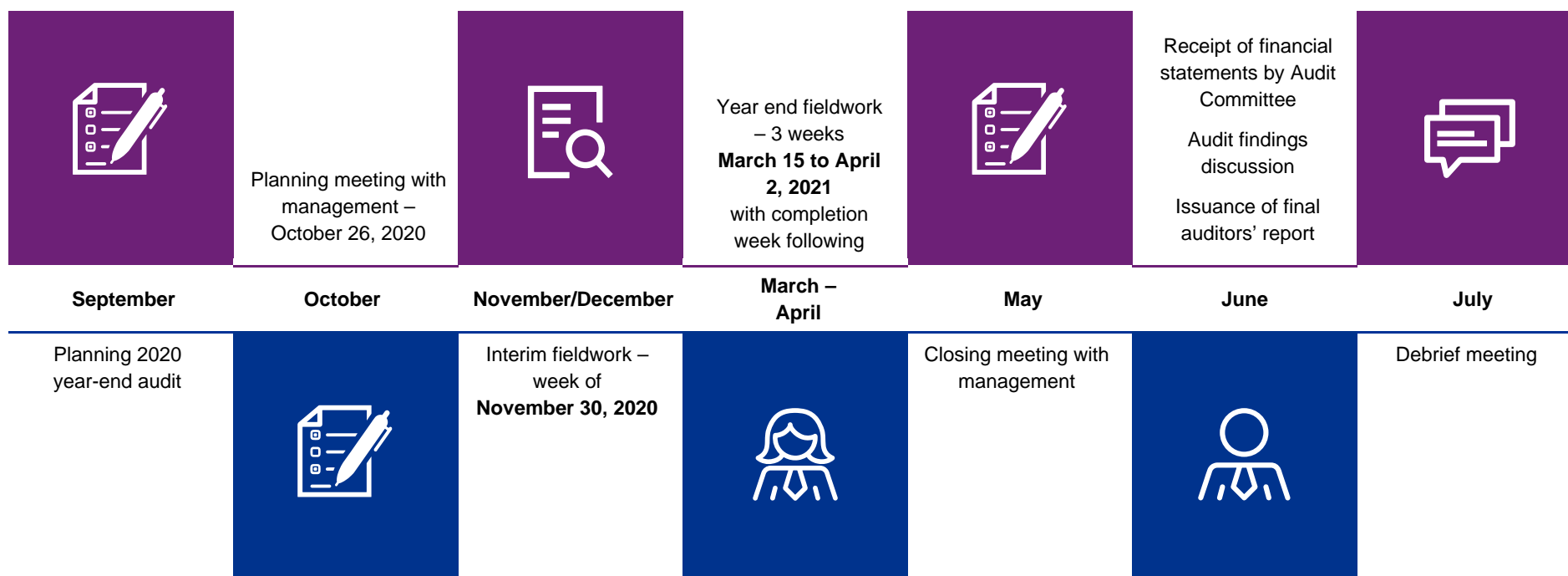
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls, and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Key deliverables and milestones



Current Developments - Accounting

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

The following are upcoming changes that are effective in the current year or will be effective in future periods as they pertain to Public Sector Accounting Standards. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations (applicable for the year ending December 31, 2023 with option for retrospective application effective December 31, 2022)	<ul style="list-style-type: none"> – A new standard, PS3280 <i>Asset Retirement Obligations</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: <ul style="list-style-type: none"> o consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; o carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; o begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Standard	Summary and implications
Revenue	<ul style="list-style-type: none"> — A new standard, PS3400 <i>Revenues</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2023 (the City's 2024 year-end). — The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. — The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. — The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> — New accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> have been approved by PSAB and are effective for years commencing on or after April 1, 2022 (the City's 2023 year-end). — Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. — Hedge accounting is not permitted. — A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. — Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 <i>Financial Instruments</i>. An exposure draft with the amendments is expected to be issued in 2020. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
International Strategy	<ul style="list-style-type: none"> — At its May 5, 2020 meeting, PSAB voted to adapt IPSAS principles when developing future standards. This decision has been years in the making, including extensive consultation with Canadian stakeholders, as part of the Board's International Strategy project. — In PSAB's 2017-2021 Strategic Plan, the Board signaled its intent to review its approach towards International Public Accounting Standards (IPSAS). IPSAS has matured over the last decade and are a high quality and comprehensive set of accounting standards. With other jurisdictions comparable to Canada adopting or adapting IPSAS, PSAB has decided it was time to review Canada's current approach towards IPSAS. — While PSAB has made the decision, more planning and work will be done to support stakeholders in this change. The Board itself will also continue to work on implementing this change into its due process, which will require further discussion and work in the coming year. A basis for conclusions was issued in September 2020 that outlines how PSAB came to this important decision. — The implementation date of this decision is April 1, 2021 (the City's 2022 year-end). All standards projects initiated on or after this date will use the principles of IPSAS in the development of the PSAS standard, if a similar IPSAS already exists. In cases where similar IPSAS does not exist, PSAS standards would continue to be developed as they are today.

Standard	Summary and implications
Employee Future Benefit Obligation	<ul style="list-style-type: none"> PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. The objective is to develop a public sector accounting standard specific to public private partnerships. A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard was issued in November 2019. Public private partnership infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is recognized when the asset is recognized and may be a financial liability, a performance obligation or a combination of both. An infrastructure asset acquired in an exchange transaction is recorded at cost which is equal to its fair value on the measurement date. The liability is measured at the cost of the infrastructure asset initially. Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life. Subsequent measurement of the financial liability would reflect the payments made by the public sector entity to settle the liability as well as the finance charge passed on to the public sector entity through the public private partnership agreement. Subsequent measurement of the performance obligation: revenues are recognized and the liability reduced in accordance with the substance of the public private partnership agreement.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying basis for conclusions documents and resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020. A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018. The SOC proposes a revised, ten-chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. The SOP includes principles intended to replace PS 1201 <i>Financial Statement Presentation</i>. The SOP proposes: <ul style="list-style-type: none"> Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets.

Standard	Summary and implications
	<ul style="list-style-type: none"> ○ Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). ○ Restructuring the statement of financial position to present non-financial assets before liabilities. ○ Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). ○ A new provision whereby an entity can use an amended budget in certain circumstances. <p>— Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.</p>
2019 – 2020 Annual Improvements	<p>— PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance).</p> <p>— The annual improvement process:</p> <ul style="list-style-type: none"> ○ clarifies standards or other guidance; or ○ corrects relatively minor unintended consequences, conflicts or oversights. <p>— Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.</p>
Purchased Intangibles	<p>— As a result of stakeholder feedback received, PSAB will revisit validity of the prohibition against recognizing purchased intangibles in public sector financial statements and will consider a narrow scope amendment.</p> <p>— Input received in response to the 2018 conceptual framework and reporting model documents for comment supported PSAB relocating the recognition prohibitions from the conceptual framework to the standards level. This is a bigger issue for Indigenous governments. PSAB is looking into the question of why purchased intangibles acquired through an exchange transaction cannot be recognized in public sector financial statements as they are measurable at the price in the transaction.</p>

New audit standards

New auditing standards that are effective for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures Effective for audits of entities with year-ends on or after December 15, 2020	Expected impact on the audit: <ul style="list-style-type: none">— more emphasis on the need for exercising professional skepticism— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)— more focus on how we respond to levels of estimation uncertainty— more emphasis on auditing disclosures related to accounting estimates— more detailed written representations required from management	CPA Canada Client Briefing

Appendices

Content

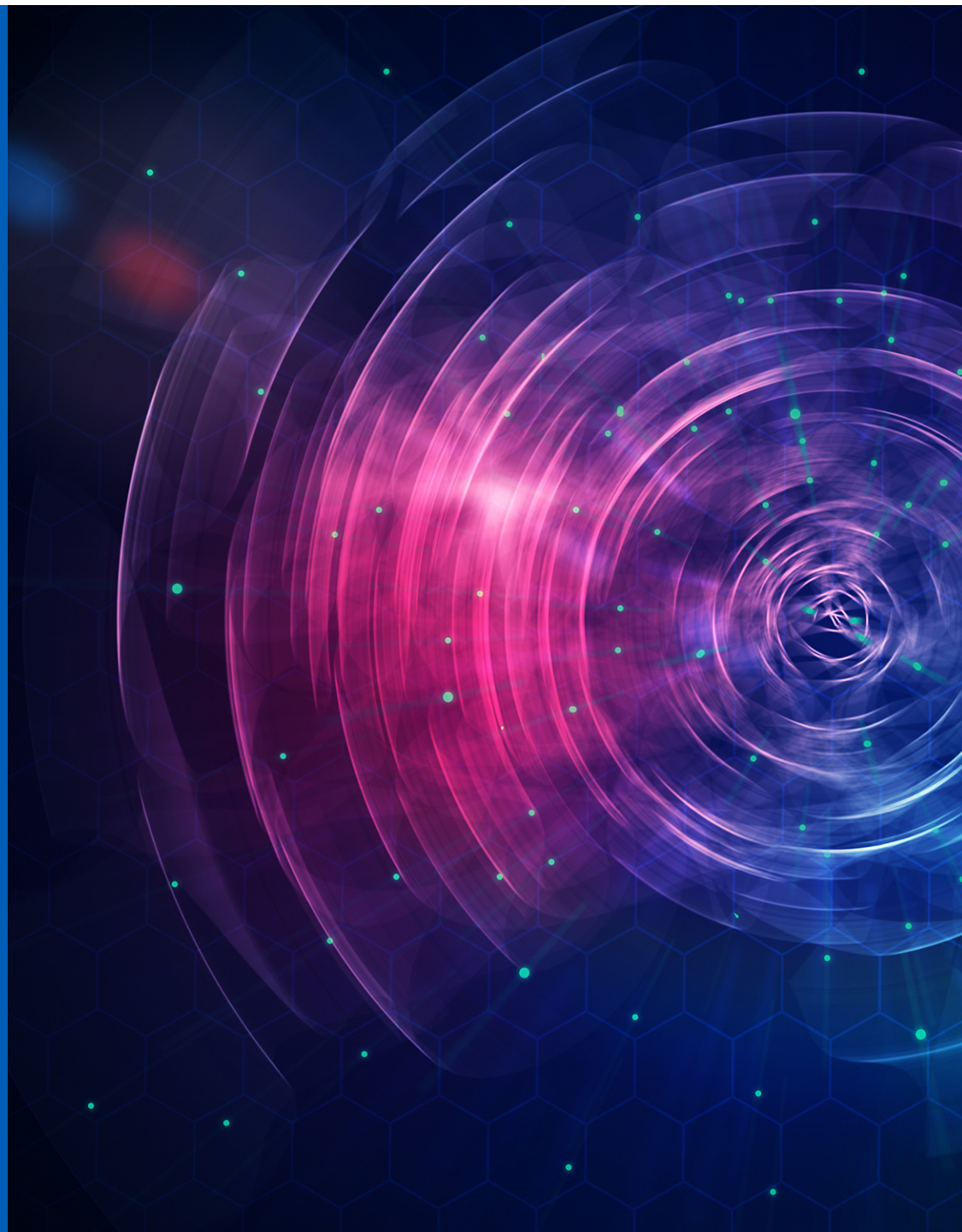
Appendix 1: Required communications

Appendix 2: Use of technology in the audit

Appendix 3: KPMG's audit approach and methodology

Appendix 4: Lean in Audit™

Appendix 5: Audit and Assurance Insights



Appendix 1: Required communications

Report	Engagement terms
<p>Audit planning report – as attached</p>	<p>Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter dated November 9, 2020.</p>
Reports to the Audit Committee	Representations of management
<p>At the completion of the audit, we will provide our findings report to the Audit Committee.</p>	<p>We will obtain from management certain representations at the completion of the audit.</p>
Required inquiries	Internal control deficiencies
<p>Professional standards require that during the planning of our audit, we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.</p> <ul style="list-style-type: none"> – Fraud: <ul style="list-style-type: none"> – What are your views about fraud risks at the entity? – How do those charged with governance exercise effective oversight of management’s processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks? – Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? – If so, have the instances been appropriately addressed and how have they been addressed? – Laws and Regulations: Is the entity in compliance with laws and regulations? – Significant Unusual Transactions: Has the entity entered into any significant unusual transactions? 	<p>Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.</p> <div data-bbox="1058 860 2003 938"> Audit Quality </div> <p>The following links are external audit quality reports for reference:</p> <ul style="list-style-type: none"> • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results • CPAB Audit Quality Insights Report: 2019 Fall Inspection Results <div data-bbox="1058 1096 2003 1174"> Matters pertaining to independence </div> <p>At the completion of our audit, we will confirm our independence to the Audit Committee.</p>

Appendix 2: Use of technology in the audit

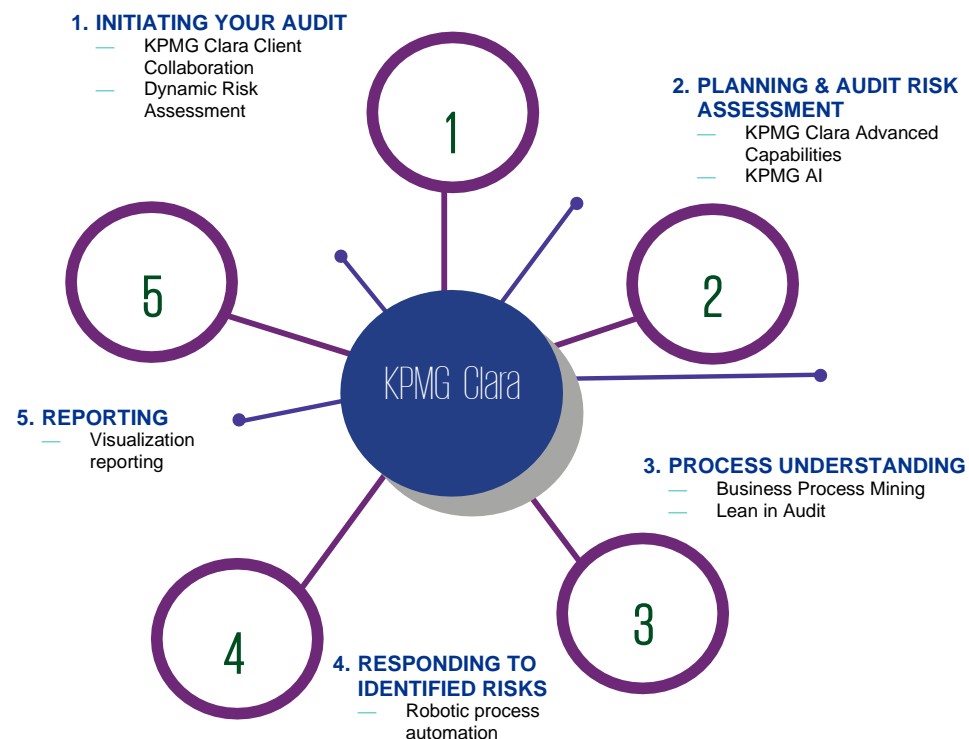
Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions through the use of robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

We will be discussing the use and implementation of these tools with the Entity over the course of our audit. These tools will be adopted and applied to the Entity's audit using a phased approach over the coming years. We will keep you apprised of our progress on a continuous basis.

Our five-phased audit approach



Appendix 3: KPMG's audit approach and methodology

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

Issue identification

Continuous updates on audit progress, risks and findings before issues become events.

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards.

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

Appendix 4: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

We will be discussing the use of this tool with management over the coming months to understand management's assessment and appetite for the use of this tool for current and future periods.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	<u>Learn more</u>
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
Accelerate	Perspective on the key issues driving the Audit Committee agenda	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>
Return to the Workplace	As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.	<u>Link to report</u>



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Audit Committee Report

DATE: Monday, January 25, 2021

WARD(S): ALL

TITLE: 2020 INTERNAL AUDIT RISK BASED WORK PLAN STATUS UPDATE

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

To present an update on the status of the 2020 Internal Audit Risk Based Work Plan.

Report Highlights

- The 2020 Internal Audit Risk Based Work Plan was approved by Council on January 28, 2020.
- The Internal Audit Risk Based Work Plan is dynamic and flexible to address emerging risks and issues throughout the year.
- As a result of the COVID-19 pandemic, one project has been delayed and two approved projects were cancelled and replaced with other projects.
- The remaining projects were initiated as planned.

Recommendations

1. That the report on the status of the 2020 Internal Audit Risk Based Work Plan be received.

Background

The Internal Audit Department provides independent, objective assurance and consulting activity designed to add value and improve the City's operations. The Department helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance

processes. The department's core responsibilities are to conduct risk based operational and compliance audits and provide advisory services.

The Internal Audit Risk Based Work Plan is developed using a risk assessment process that combines financial, reputational, compliance and operational criteria.

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and the City's Internal Audit Policy, Internal Audit has a responsibility to develop an audit work plan that reflects the current and emerging risks within the City. The work plan should be dynamic and flexible and changes to the work plan may be required occasionally to reflect emerging risks and changes in strategic objectives. The Director of Internal Audit has the authority to amend the approved Work Plan but advises Council, through the Audit Committee, as to reasons why.

Previous Reports/Authority

[2020 Internal Audit Risk Based Work Plan](#)

Analysis and Options

The 2020 Internal Audit Risk Based Work Plan was approved by Council on January 28, 2020. At the time the Work Plan was approved, it was believed that Internal Audit staff would be able to independently and objectively execute the projects identified in the Work Plan.

However, on March 13, the City's Emergency Response Plan was activated and on March 17, the Mayor declared a state of emergency, signaling the City would take every precaution and every possible step to help break the transmission of COVID-19. All City facilities, including City Hall, the Joint Operations Centre, Recreation Centres, and Vaughan Public Libraries were closed to the public.

As a result of the global COVID-19 pandemic, changes to the 2020 Internal Audit Risk Based Work Plan were required.

Listed below are the projects that have been impacted as a result of the COVID-19 pandemic:

- **MAT (Municipal Accommodation Tax) Audit:** MAT collections began on April 1, 2019 as the dedicated source of funding for tourism marketing and promotions through the Tourism Vaughan Corporation. MAT collections also support City efforts to enhance visitor and resident experience while in the City (i.e. wayfinding and beautification, infrastructure improvements and communications). Due to the COVID-19 pandemic, purchased accommodation has been impacted as a result of travel restrictions, event cancellations and self-isolation requirements. In March 2020, in support of Vaughan's 16 accommodation properties, Council approved to suspend the MAT from March 17-June 1, 2020. In May 2020, Council further approved to extend the suspension term

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until September 1, 2020. As a result of Council's decision, it was determined that it would not be practical to perform this audit in 2020. This audit will be rescheduled to either 2022 or the next Term of Council.

- *Human Resources Audit:* Human Resources staff have been actively supporting the organization throughout the COVID-19 pandemic. This has included assisting with the transition of staff to remote work environments, protecting those in the field who provide critical services, and assisting management with redeployments, layoffs and recalls. They continue to play a key role in business reintegration planning and health and safety initiatives. With all of these additional challenges, the decision was made to cancel this audit so that Human Resources staff can focus on continuing to support the organization through the pandemic and recovery efforts. This audit will be rescheduled in either 2022 or during the next Term of Council.
- *By-Law & Compliance, Licensing & Permit Services Audit: Phase 2 – Enforcement Services:* Our three phased approach for auditing By-Law & Compliance, Licensing and Permit Services began in Q3 of 2019 with the start of the first two phases. Phase 1: Policy and Business Planning, was completed and presented to CW2 on September 22, 2020. The planning phase of the Enforcement Services audit was completed in Q1 2020. However, in consultation with the Director of By-Law & Compliance, Licensing and Permit Services, it was decided to delay the start of the fieldwork phase of the audit. This was done to help ensure that Enforcement Staff could maintain their focus on the evolving changes in legislation in response to the pandemic and their corresponding enforcement and educational efforts. It is anticipated that this audit will resume in 2021.

Listed below are the projects that were added to the Work Plan:

- *Establishing an Audit Committee:* At the Council Meeting on June 29th, 2020, Council requested that the Director of Internal Audit prepare for review to the Committee of the Whole, a report comparing and contrasting different approaches to the municipal audit function, namely, a separate Audit Committee composed of some or all Members of Council versus a Committee of the Whole with an audit charter being a framework for the dealing of audit issues within the context of the Committee of the Whole. On October 21, 2020, Council approved the establishment of an Audit Committee, based on Option #2 in the Internal Audit Report entitled, Options for Establishing an Audit Committee, which was presented to CW2 on October 14. An Audit Committee Terms of Reference was drafted and approved by Council on December 15. The City's Procedure By-Law and Committee Charter for Audit Related Matters was also amended and approved by Council on December 15th.
- *Vaughan Fire and Rescue Services Consulting Engagement:* The Fire Chief requested that Internal Audit provide an independent examination of VFRS' services to ensure that they are able to provide the community with the best possible protection in a cost-effective manner while managing a very challenging and occasionally life-threatening set of risks. Internal Audit examined how VFRS utilizes

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the Office of the Fire Marshal and Emergency Management Three Lines of Defense Model when planning to meet the needs of the community and provided advise which should help inform strategic decisions moving forward.

The table below provides a high-level summary of all the work plan engagements that were scheduled to begin in 2020 and their status.

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Information Technology Security Audit</p>	<p>Rationale: Securing computerized data and information is important for several reasons, but principally as a means of keeping information safe. The importance of computer security lies in how harmful it can be if data or information is lost.</p> <p>The City stores a lot of data, some of it very sensitive, including payment information, staff records, e-mails, citizen information and extensive corporate documents, both finished and those in progress.</p> <p>Risk: In addition to security breaches by outsiders, there is also an increasing risk that data and systems can be compromised by staff inside organizations. As part of their daily responsibilities, staff have access to data and information that those outside of the organization typically do not. Although not a risk unique to computerized information, the ease of availability and accessibility to computerized information may increase the likelihood of a security breach.</p>	<p>In Progress. It is anticipated that this report will be presented to the Audit Committee in June, 2021</p>
<p>IT Governance Audit</p> <p>[Consulting]</p>	<p>Rationale: IT governance provides a structure for aligning IT strategy with business strategy. It provides a framework of best practices and controls. By following a formal framework, the City can produce measurable results toward achieving the Term of Council Priorities and strategic objectives.</p> <p>Risk: The City requires sufficient, competent and capable IT resources in order to help the City deliver on the Term of Council Priorities and execute on the activities required to meet current and future strategic objectives. The absence of effective administration, stewardship and metrics to track initiatives can result in lost opportunities and reputational damage to the City.</p>	<p>Ongoing</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Financial Planning & Budgeting Process</p> <p>[Consulting]</p>	<p>Rationale: Having an effective financial planning and budgeting process in place is necessary in order to achieve organizational goals in the shortest time possible with a minimum of resources and funding. Developing a long-range fiscal plan and forecast and refining fiscal framework policies to support financial sustainability is a part of the Term of Council Service Excellence Strategic Plan.</p> <p>Risk: An ineffective financial planning & budgeting process may pose several significant short- and long-term risks to the City and may impact decision making as it relates to service levels, priorities and funding allocations.</p>	<p>Ongoing</p>
<p>Vendor Master File Audit</p>	<p>Rationale: The vendor master file is a key foundation for payment processing and contains information about vendors the City does business with. The file generally includes the vendor's name, address and contact information. An adequately designed vendor master file program ensures that the City's purchases and expenses are accurately recorded and that these expenditures are paid on a timely basis.</p> <p>Risk: It is essential that effective management and administration over the file is in place to reduce the risk of unauthorized or inappropriate activity. Ineffective controls over the vendor master file can lead to inaccurate, incomplete, or unauthorized vendor records. This could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse.</p>	<p>In Progress. It is anticipated that this report will be presented to Audit Committee in April, 2021</p>
<p>Municipal Accommodation Tax Audit</p>	<p>Rationale: The City of Vaughan has approved a four per cent Municipal Accommodation Tax (MAT) on hotels, lodges, bed and breakfasts and motels effective April. 1, 2019. Pending the establishment of a planning and regulatory framework, the City is also considering applying the MAT to short-term rentals, including online home-sharing platforms.</p> <p>The 4% municipal accommodation tax rate applied to hotels and short-term rentals has been projected to generate \$2.4 million revenues in 2019 (April to December), increasing to \$4.4 million full year revenue by 2023.</p> <p>Risk: MAT revenues are remitted by transient accommodation providers to the City on a monthly basis. Without effective controls in place, there is a risk that accommodation providers will not remit the correct amount owing on a timely basis.</p>	<p>Cancelled and replaced with the work required to establish the City's Audit Committee</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Building Standards Audit	<p>Rationale: The Building Standards department issues permits for the construction, renovation, demolition and re-zoning of buildings. They also issue permits for the installation, alteration, extension or repair of onsite sewage systems, plumbing systems and mechanical systems such as heating, ventilation and air conditioning (HVAC).</p> <p>Risk: It is essential that effective management and oversight over the review and issuance of building permits is in place to ensure buildings are safe and that they meet the Ontario Building Code, the City's Zoning By-law, and other planning controls and laws.</p>	In Progress. It is anticipated that this will be presented to Audit Committee in Q4, 2021
Human Resources Audit	<p>Rationale: The Office of the Chief Human Resources Officer (HR) partners with City departments to hire and retain talented individuals to be part of this dynamic workplace. This includes providing information and resources on new employee onboarding, benefits and compensation, health, safety and wellness, and accessibility and diversity.</p> <p>HR also manages and evaluates pay, develops recommendations about policies and procedure and ensures compliance with relevant legislation, such as the Employment Standards Act and the Pay Equity Act.</p> <p>Risk: HR's services and programs should be tied to the needs of the organization and support the City's Term of Council Service Excellence Strategic Plan. The absence of effective administration and metrics to track initiatives may weaken the City's ability to attract and retain qualified employees and remain competitive in the labour market.</p>	Cancelled and replaced with VFRS Consulting engagement
Construction Audit of Fire Station #7-4: Phase 3	<p>Rationale: Individual Capital Projects can represent a significant investment for the City. Large projects are managed from a variety of aspects including financial, timeliness and meeting deliverables. Audits of individual projects can provide assurance that risks are properly managed.</p> <p>Risk: If projects are not properly managed the greatest risk is they do not meet their deliverables either by not being on time or on budget. Projects that are late or over budget can lead to financial loss, quality reduction and erosion of public trust.</p>	In Progress. It is anticipated that this report will be presented to Audit Committee in April, 2021

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>General Internal Audit Follow-up Program</p>	<p>Rationale: As part of the Internal Audit reporting process, Internal Audit and clients agree on action plans to address issues identified in the report. Follow-up is done to determine if the action plans have been implemented.</p> <p>Risk: If action plans are not followed up there is the risk they may not implemented. Risk and control exposures could be still be outstanding that could have a negative impact on the City. There is also the risk that initial action plans may not have been suitable. Internal audit can work with clients to develop more suitable plans if follow-up is done.</p>	<p>Annual update included as part of the Internal Audit Department Annual report, which was presented at CW2 on June 16, 2020</p>
<p>Internal Audit Department Annual Report</p>	<p>Rationale: In accordance with the City's Internal Audit Policy, an annual report shall be submitted to the Committee of the Whole outlining the annual activities of the Internal Audit Department.</p> <p>This report will outline the activities of the Internal Audit Department for the period January 1 through December 31, 2019. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	<p>Presented at CW2 on June 16, 2020</p>
<p>Anonymous Reporting System Administration</p>	<p>Rationale: The City's Anonymous Reporting System was implemented on April 15, 2014 as an additional mechanism for employees to confidentially and anonymously report suspected fraud and code of conduct violations.</p> <p>Report intake is operated independently by a third party and is accessible by internet and toll-free phone number. It is available 24 hours a day, 7 days a week.</p> <p>An employee who chooses to file a report is asked to create a password and is provided with a unique case tracking number so that they can log back into the system to follow the progress of their report, provide further details and to answer any questions posed by the investigator, a member of the City's Internal Audit team. Depending on the nature of the issue, management may be required to assist Internal Audit with an investigation.</p>	<p>Annual update included as part of the Internal Audit Department Annual report, which was presented at CW2 on June 16, 2020</p>

The following Internal Audit reports were presented to the Committee of the Whole and approved by Council in 2020:

- 2020 Internal Audit Risk Based Work Plan
- Construction Audit of Fire Station 7-4: Phase 2
- Consulting Services Audit
- Internal Audit Annual Report
- Internal Audit Policy and Committee Charter for Audit Related Matters
- By-Law & Compliance, Licensing & Permit Services Audit: Phase 1
- Options for Establishing an Audit Committee
- Vaughan Business Enterprise Centre Audit
- Audit Committee Terms of Reference and Amended Procedure By-Law and Audit Committee Charter

Financial Impact

Not Applicable

Broader Regional Impacts/Considerations

Not Applicable

Conclusion

Amendments to the approved 2020 Internal Audit Risk Based Work Plan was necessary in order to address emerging risks brought on by the COVID-19 pandemic. Internal Audit will continue to provide updates to the Audit Committee on the status of Work Plan activities.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

Not Applicable

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293

Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal line extending to the right.

Kevin Shapiro, Director of Internal Audit

Audit Committee Report

DATE: Monday, January 25, 2021

WARD(S): ALL

TITLE: 2021 INTERNAL AUDIT RISK BASED WORK PLAN

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To present the 2021 Internal Audit Risk Based Work Plan, for approval.

Report Highlights

- The 2021 Internal Audit Risk Based Work Plan was developed using a risk assessment process and information gathered from various sources.
- The work plan is aligned with the 2018 – 2022 Term of Council Service Excellence Strategic Plan.
- The 2021 work plan will remain dynamic and flexible to address emerging risks and issues throughout the year.
- Internal Audit will be able to independently and objectively execute the projects identified in the work plan.

Recommendations

1. That the 2021 Internal Audit Risk Based Work Plan be approved.

Background

The Internal Audit Department provides independent, objective assurance and consulting activity designed to add value and improve the City's operations. The Department helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance

processes. The department's core responsibilities are to conduct risk based operational and compliance audits and provide advisory services where requested.

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and the City's Internal Audit Policy, Internal Audit has a responsibility to develop an audit work plan that reflects the current and emerging risks within the City. The Internal Audit Risk Based Work Plan was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

Previous Reports/Authority

Not Applicable

Analysis and Options

The Committee of Sponsoring Organizations (COSO) defines risk assessment as a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives. A risk factor is an observable or measurable indicator of conditions or events that could adversely affect the City.

Internal Audit performed an entity wide risk assessment in the summer of 2020 to inform the remainder of this Term of Council audit plan priorities. A total of 77 entities were identified in the City's audit universe, by analyzing budget documentation and by reviewing the City's organizational chart. For some areas, we consolidated entities in order to create efficiencies for the purposes of conducting future audits.

A management survey, which measured strategic, reputational, compliance and operational risks was developed, and completed by either the Director or Manager directly responsible for the entity. The survey contained a total of 21 closed questions and 2 open ended questions. The survey questions were similar to the questions asked in 2018, with the addition of questions related to COVID-19 risk impact on short and long-term objectives, emergency preparedness and third-party risk.

After the completion of the survey, the Director of Internal Audit compared the survey answers to the 2018 results and followed up with management where further explanations were required and to determine whether any of the survey answers needed to be updated.

The Director of Internal Audit met with each member of the Senior Leadership Executive team to revisit these results and identify any emerging risks or areas of potential concern.

In addition to the entity wide risk assessment, other sources were used for determining risk and work plan priorities. These include:

- Discussions with the senior leadership team members
- Insight from Council
- Financial significance
- Current and emerging risks in the local government sector
- High profile issues in other municipalities
- Management requests
- Themes from previous audits and investigations
- Significant change initiatives

Based on current available resources, a list of priority projects for 2021 has been established

The general philosophy of the Internal Audit Work Plan is that:

- The work plan is not fixed. The intent is a dynamic plan where new projects can substitute existing projects. The Director of Internal Audit has the authority to substitute projects but advises Council, through the Audit Committee, as to the reasons why.
- Council has the authority to request projects that are not on the work plan.
- A limited amount of time is built in to accommodate special management requests.

Additional staff may be required if the risk profile changes significantly or if there is a demand for more audit service. In addition, subject to available funding, some projects can be co-sourced. Co-sourcing is helpful when special skills are required to do technically specific projects such as information technology audits.

Time available to complete the work plan considers statutory holidays, vacations, absences, training and various administrative functions. Direct audit time includes work plan audit projects, administration of the anonymous reporting system, special request audits received throughout the year, and advice and education to audit clients on controls, emerging issues and new corporate initiatives. Direct time also includes audit research, quality assurance and improvement initiatives, the maintenance of the internal audit methodology and audit planning.

Times to complete projects are estimates only and reflect historical experience. Risk based Internal Audits require client participation to identify risks, agree on issues and develop management relevant action plans.

The table below outlines 2021 Internal Audit Risk Based Work Plan projects:

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Water, Wastewater and Stormwater Billing and Collection Audit	<p>Rationale: The City of Vaughan charges for both water and wastewater services. These charges are billed by Alectra, on behalf of the City of Vaughan, and appear on a customer's hydro bill. Stormwater rates are charged once per year.</p> <p>It is important that customer information is managed properly, and water, wastewater and stormwater revenue is billed and collected in an efficient and effective manner.</p> <p>Risk: Without effective controls in place, there is a risk that customers may be billed incorrectly and / or payment may be incorrect or delayed.</p>	Operational Performance and Citizen Experience
Payroll Audit	<p>Rationale: Payroll is responsible for processing salaries and hourly wages for over 2900 Management, Union, Part-time, Contract and Seasonal employees. Employee pay is processed and deposited into employee bank accounts biweekly. It is important that records are correct, employees are paid according to the time worked and payroll is processed accurately and timely.</p> <p>Risk: Without effective controls in place, there is a risk that employees may not be paid correctly or in a timely manner.</p>	Operational Performance and Staff Engagement
Construction Audit of Carville Community Centre: Phase 1 - Planning & Design	<p>Rationale: The Construction Audit of the Carville Community Centre will encompass the complete lifecycle of the project and will be conducted in 3 phases. Individual Capital Projects can represent a significant investment for the City. Large projects are managed from a variety of aspects including financial, timeliness and meeting deliverables. Audits of individual projects can provide assurance that risks are properly managed.</p> <p>The audit will examine whether the lessons learned from the Construction Audit of Fire Station 7-4 have been applied to this project.</p> <p>Risk: If projects are not properly managed the greatest risk is they do not meet their deliverables either by not being on time or on budget. Projects that are late or over budget can lead to financial loss, quality reduction and erosion of public trust.</p>	Safe, Active and Engaged Communities and Operational Performance

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>By Law & Compliance, Licensing & Permit Services: Phase 3 – Animal Services Audit</p>	<p>Rationale: Vaughan Animal Services is dedicated to creating a safe community for pets and their owners. Services include dog and cat licensing, animal control by-law education, pick up of injured, sick or stray dogs, cats and wildlife, reuniting owners with lost pets and pet adoption.</p> <p>Risk: It is essential that effective management and administration is in place to reduce the risk of non-compliance with applicable laws, regulations, and City policy associated with animal services.</p>	<p>Safe, Active and Engaged Communities, Citizen Experience and Operational Performance</p>
<p>Water Sampling Follow-up Audit</p>	<p>Rationale: The Water, Wastewater and Stormwater Audit was presented to FA&A on June 5, 2019. The audit raised significant concerns with management oversight and controls over the City's Water Sampling Process. Since the completion of the audit, management has made significant changes to their process, including technology improvements that have enhanced sample collection and reporting. The audit will focus solely on the new water sampling processes and controls to identify whether these measures have mitigated the risks identified in the 2019 audit.</p> <p>Risk: It is management's responsibility to ensure the implementation and continued use of best practices and accepted testing methods for the collection and analysis of drinking water samples. The quality of the data produced can only be as good as the poorest level of quality assurance in the entire process of sampling and analysis. Improved controls, processes and oversight can provide assurance that health and safety, regulatory and reputational risks are being mitigated.</p>	<p>Environmental Stewardship, Operational Performance and Citizen Experience</p>
<p>Emergency Planning & Business Recovery – COVID-19 Audit</p>	<p>Rationale: The Emergency Planning Department is responsible for ensuring the City has the capacity to manage any emergency through training, exercises, plans, procedures, public education, risk identification, mitigation measures and continuity of operations strategies.</p> <p>The audit will primarily focus on the City's response, mitigation, and recovery related to the COVID-19 pandemic.</p> <p>Risk: It is important that staff and residents are educated on how to prepare for, and deal with, emergencies and disasters. Knowing what actions to take before, during and after an emergency can help minimize stress and prevent injuries or damages.</p>	<p>Safe, Active and Engaged Communities, Citizen Experience and Operational Performance</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Fleet Services and VFRS Mechanical Audit	<p>Rationale: Fleet Management Services (FMS) is responsible for administering a maintenance program to ensure that the City of Vaughan vehicles and equipment are operating safely within the community. FMS is also responsible for driver training and safety compliances and maintaining vehicle licensing, CVOR Certification and emission testing for all vehicles. FMS also maintains an automated, card controlled, fueling system to City vehicles.</p> <p>The VFRS Mechanical Division ensures all firefighting equipment and trucks are ready and up to date on all current Ministry of Transportation commercial vehicle and National Fire Protection Association safety standards.</p> <p>Risk: It is essential that effective management and oversight over the City's fleet is in place to ensure vehicles and equipment are in safe working order and that they meet legislative compliance.</p>	Environmental Stewardship and Operational Performance
Quality Assessment Review	<p>Rationale: To comply with Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing, it is required that internal audit departments have independent quality assessments performed at a minimum of every five years. Internal Audit has been performing an internal readiness assessment to prepare for the City's first external assessment. Internal Audit will be conducting a self-assessment of current business practices against the IIA Standards. An independent assessor will provide an external validation.</p> <p>Risk: Without an assessment, there is a risk that Internal Audit would be non-compliant to the IIA standards and improvement opportunities to strengthen Internal Audit's effectiveness and the value of activities and services provided would not be achieved.</p>	Good Governance
Internal Audit Department Annual Report	<p>Rationale: In accordance with the City's Internal Audit Policy, an annual report shall be submitted to the Committee of the Whole outlining the annual activities of the Internal Audit Department.</p> <p>This report will outline the activities of the Internal Audit Department for the period January 1 through December 31, 2020. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	Good Governance

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>General Internal Audit Follow-up Program</p>	<p>Rationale: As part of the Internal Audit reporting process, Internal Audit and clients agree on action plans to address issues identified in the report. Follow-up is done to determine if the action plans have been implemented.</p> <p>Risk: If action plans are not followed up there is the risk they may not implemented. Risk and control exposures could be still be outstanding that could have a negative impact on the City. There is also the risk that initial action plans may not have been suitable. Internal audit can work with clients to develop more suitable plans if follow-up is done.</p>	<p>Good Governance and Operational Performance</p>
<p>Anonymous Reporting System Administration</p>	<p>Rationale: The City's Anonymous Reporting System was implemented on April 15, 2014 as an additional mechanism for employees to confidentially and anonymously report suspected fraud and code of conduct violations.</p> <p>Report intake is operated independently by a third party and is accessible by internet and toll-free phone number. It is available 24 hours a day, 7 days a week.</p> <p>An employee who chooses to file a report is asked to create a password and is provided with a unique case tracking number so that they can log back into the system to follow the progress of their report, provide further details and to answer any questions posed by the investigator, a member of the City's Internal Audit team. Depending on the nature of the issue, management may be required to assist Internal Audit with an investigation.</p>	<p>Good Governance</p>

Financial Impact

Not Applicable

Broader Regional Impacts/Considerations

Not Applicable

Conclusion

The 2021 Internal Audit Risk Based Work Plan has been developed using the best available information and is aligned with the City's Term of Council Strategic Priorities. Based on existing resources, Internal Audit will be able to independently and objectively carry out the priority projects identified in this work plan.

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For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

Not Applicable

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293

Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit

Audit Committee Report

DATE: Monday, January 25, 2021

WARD(S): ALL

**TITLE: REQUEST FOR APPROVAL OF A SINGLE SOURCE
PROCUREMENT FOR AN EXTERNAL QUALITY ASSESSMENT**

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To obtain approval for a single source procurement for Internal Audit's External Quality Assessment.

Report Highlights

- The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an external quality assessment of the internal audit activity be conducted at least once every five years.
- As previously communicated in our Annual Report, Internal Audit has been performing an internal readiness assessment to prepare for the City's first external quality assessment.
- The external quality assessment will evaluate whether Internal Audit is in conformance with the Institute of Internal Auditor's (IIA) Standards and Code of Ethics.
- As the highest authority on the *Standards*, an external assessment conducted by the IIA would provide the most credible evaluation and valuable insight.
- Although the Director of Internal Audit has delegated authority under the City's Corporate Procurement Policy to approve this single source engagement, it is recommended that the Audit Committee approve this engagement award to minimize the risk of any perceived conflict.

Recommendations

1. That the single source procurement of Internal Audit's External Quality Assessment be awarded to the Institute of Internal Auditors.
2. That the Director of Procurement Services be authorized to finalize and sign any necessary agreements.

Background

Established in 1941, the IIA is an international professional association. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

The IIA provides internal audit professionals worldwide with authoritative guidance organized in the International Professional Practices Framework (IPPF) as mandatory guidance and recommended guidance. The mandatory elements of the IPPF are:

- International Standards for the Professional Practice of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics

Conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the Standards is to:

- Guide adherence with the mandatory elements of the International Professional Practices Framework.
- Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organizational processes and operations.

The Standards are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the Standards.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the

Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the Standards¹.

Previous Reports/Authority

Not applicable.

Analysis and Options

As part of conformance to the IIA *Standards* and the City's Internal Audit Policy, the Director of Internal Audit is responsible for developing and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity. It is designed to enable an evaluation of the internal audit activity's conformance with the IIA *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The quality assurance and improvement program must include both internal and external assessments.

Internal assessments are conducted by the Director of Internal Audit and are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

Internal Audit has performed an internal quality readiness assessment to prepare for the City's first external assessment

¹ Additional information about the IIA's IPPF and the International Standards for the Professional Practice of Internal Auditing can be found at <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

Prior to commencing an external assessment, the IIA recommends that the Internal Audit department perform a self assessment to gauge the department's current level of conformance with the *Standards* and remediate any identified gaps.

The following outline the internal readiness assessment activities conducted to date:

- Developed standard tools, templates and a quality assurance checklist to conduct the assessment.
- Updated and revised the department's standards and practices manual to reflect changes in the IIA's IPPF framework.
- Starting with the Social Media Audit in 2017, all completed audits have been assessed using the quality assurance checklist and are in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Annual Review Checklists for 2017, 2018 and 2019 have been completed, and Internal Audit is in conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Annual Review Checklist for 2020 is in progress.
- Drafted the Committee Charter for Audit Related Matters which was designed to provide guidance to the Members of the Committee of the Whole on carrying out their governance, accountability and controllership responsibilities. This Charter was approved by Council on June 29, 2020. It was subsequently amended and renamed to the Audit Committee Charter upon Council approval of establishing an Audit Committee. The amended Audit Committee Charter was approved by Council on December 15, 2020.
- The revised Internal Audit Policy was approved by Council on June 29, 2020. The policy was updated to reflect Internal Audit's role as the administrator of the Anonymous Reporting System and the department's role in fraud investigation and reporting. Internal Audit's commitment to continuous improvement has also been formalized in the Policy as the Quality Assurance and Improvement Program. The revised Policy also aligns Internal Audit's assurance and advisory roles with the City's Enterprise Risk Management program.

The IIA's Quality Services Branch Offers Quality Assessment Services

The IIA's Quality Services branch maintains an expert team of quality assessors who have excellent credentials and many years of combined experience performing external quality assessments. These audit professionals are recognized quality assessment leaders. They guide internal audit practitioners in collaboration with The IIA's methodology to perform assessments for Fortune 500 companies, government agencies, and small businesses in a wide variety of industries across the globe. The IIA uses a consultative approach and share their extensive knowledge and insight regarding

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effective practices for internal audit activities. They also have access to a global benchmarking database, and a repository of successful practices.

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. Internal Audit will be seeking the latter, which is consistent with our municipal benchmarking.

With a full external assessment, an independent assessment team of experts conducts surveys, interviews, and workpaper reviews leading to a documented opinion on conformance with the Standards, any observed opportunities for continuous improvement, and recommendations for adding value to the organization.

The Self-assessment with Independent Validation (SAIV) approach also meets the requirements of the *Standards* for an external assessment once every five years. Under this approach, Internal Audit would be responsible for completing a self-assessment per the IIA's Quality Assessment Manual for the Internal Audit Activity. IIA Quality Services, then provides independent validation services delivered by a qualified internal audit professional. This independent assessor would review the self-assessment, substantiates the work completed by Internal Audit, makes an on-site visit, interviews senior management, and either co-signs Internal Audit's report regarding conformance to the Standards or issues a separate report on the disparities.

Although the SAIV requires more resources of Internal Audit, this approach can be more economical than a full scope quality assessment while still meeting the requirements of the *Standards*.

To ensure openness and transparency, it is recommended that the Audit Committee approve this engagement award

According to section 4.2.3 of the City's Corporate Procurement Policy PS-003, a single source procurement means that there is more than one source of supply in the open market, but only one source is recommended due to predetermined and approved specifications. Section 4.2.4 (h) states that a procurement may be conducted using a Single Source process if the goods, services and/or construction are available from more than one source, but there are valid and sufficient reasons for selecting one vendor in particular, as the required goods, services and/or construction are to be supplied by a particular vendor(s) having special knowledge, skills, expertise or experience. As the external assessment is based on the IIA's *Standards*, the IIA would qualify as a vendor having the specialized knowledge, skills expertise or experience.

Based on discussions with Directors of Internal Audit at other local municipalities, the cost of a SAIV from other providers can range between \$25,000 - \$40,000. The quote received from the IIA is \$13,800 US.

Although the Director of Internal Audit has the delegation of authority to award this single source engagement to the IIA under the City's Corporate Procurement Policy PS-003, it

is recommended that the Audit Committee approve this engagement award to minimize the risk of any perceived conflict.

Financial Impact

The estimated cost for retaining the IIA to conduct the SAIV external assessment is \$13,800 US. Internal Audit has funds allocated for this project in the department's approved 2021 budget.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an external quality assessment of the internal audit activity be conducted at least once every five years. Internal Audit has performed an internal readiness assessment to prepare for the City's first external quality assessment. Consistent with our jurisdictional scan, Internal Audit has opted to conduct a self-assessment and have an independent external assessor validate the assessment's results. Having the highest authority and expertise, Internal Audit's recommendation is to single source the IIA for the external assessment.

Upon approval, Internal Audit will complete the self-assessment per the IIA's Quality Assessment Manual for the Internal Audit Activity. The IIA's external assessor is tentatively scheduled to begin advanced preparation in August. Their proposed on-site work is tentatively scheduled for late October. This work might be performed virtually instead, depending on the evolving conditions due to the COVID-19 pandemic. The final report would tentatively be complete in December 2021, with presentation to the Audit Committee in January 2022.

Attachments

Not applicable.

Prepared by

Rebecca Burchert, Audit Project Manager, extension 8124
Kevin Shapiro, Director of Internal Audit, extension 8293

Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit