

Audit Committee Report

DATE: Monday, January 30, 2023

WARD(S): ALL

TITLE: 2023 INTERNAL AUDIT RISK BASED WORK PLAN

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To present the 2023 Internal Audit Risk Based Work Plan, for approval.

Report Highlights

- The 2023 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 2022 – 2026 Term of Council Service Excellence Strategic Plan.
- The 2023 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.

Recommendation

1. That the 2023 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 2022 to inform the 2023 and 2024 audit plan priorities. A total of 80 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 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 identical to the questions asked in 2020.

After the completion of the survey, the Director of Internal Audit compared the survey answers to the 2020 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 2023 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.
- The Audit Committee 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 the 2023 Internal Audit Risk Based Work Plan projects:

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Development Planning Audit</p>	<p>Rationale: The Development Planning department manages city-building by implementing Provincial Policy, Regional and City Official Plan Policy, the strategic priorities contained in the Term of Council Service Excellence Strategic Plan and the City's Growth Management Strategy. This is achieved through the comprehensive analysis of development planning, heritage and Committee of Adjustment applications submitted by private landowners and through the preparation and implementation of urban design guidelines, streetscape implementation and financial strategy plans and management of capital projects. The department provides a public service function by facilitating input from the public, agencies, City departments, other levels of government and stakeholders into the development approval process and being a source for land development information.</p> <p>In the first three quarters of 2021, the department processed over 214 development applications, conducted a total of 105 PAC meetings and provided planning advice related to 21 Local Planning Appeal Tribunals.</p> <p>Risk: Some of the key objectives of the Planning Department in 2022 included transforming the development planning process and policy to improve approval timelines and delivering on development application initiatives for continuous process improvement. It is important that these objectives are successful to achieve community satisfaction, meet legislative changes (i.e. Bill 109) and to meet the City Building Term of Council strategic initiative.</p>	<p>City Building and Citizen Service Excellence</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. The MAT Short-term Rental By-law 183-2019 was approved by Council in December 2019. This by-law applies the MAT to all short-term rental stays and collection came into effect on April 1, 2020.</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>Economic Prosperity and Job Creation, and Citizen Experience</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
MoveSmart Mobility Management Strategy Audit	<p>Rationale: MoveSmart is a five-year strategy that aims to increase road safety, improve mobility efficiency through innovation and technology, ensure accuracy and availability of traffic data and support active and sustainable transportation. The strategy was endorsed by Council in 2021 in support of the 2018 – 2022 Term of Council Service Excellence Strategic Plan.</p> <p>Risk: In the 2018 Citizen Satisfaction Survey, 59 per cent of residents said transportation is the most important issue facing the community. It is important that the MoveSmart strategy is executed in an efficient and effective manner to help improve community satisfaction, wellbeing and health and safety.</p>	Transportation & Mobility and Citizen Service Excellence
Water, Wastewater and Stormwater Billing and Collection Audit	<p>Rationale: The City of Vaughan charges for water, wastewater and stormwater services. These charges are billed by Alectra on behalf of the City and appear on a customer's hydro bill. Stormwater rates are charged once per year. 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>On August 6th, 2021, the City was notified by Alectra staff that they will discontinue water, wastewater and stormwater billing services by December 31, 2024. The City is working with a consultant to develop options for the future state of these billing processes.</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. In addition, it is vital that the risks associated with the transition plan and future state of the City's billing process are identified and mitigated.</p>	Citizen Service Excellence and Governance & Leadership
Workforce Planning Audit	<p>Rationale: Creating an effective staffing program is a critical part of HR management. Staffing includes designing what the workforce should look like, how the organization should be structured, recruitment, selection and onboarding of new staff and managing contingent resources.</p> <p>Risk: The fallout of the COVID-19 pandemic has changed the way we work and has created different types of operational, compliance, financial and employment market risks. Ongoing evaluation and adjusting the strategy are key to staff engagement and retention and it is imperative that the City has</p>	Governance & Leadership

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
	strategies in place to plan for and mitigate these risks.	
Information Technology (IT) Asset Management and Contracts Audit	<p>Rationale: Asset management involves analyzing and tracking the lifecycle of an asset to maximize its value. At a high level, the process begins with acquiring the asset, using the asset, supporting and maintaining the asset then disposing the asset at the conclusion of its useful life. Asset management programs help ensure informed decisions can be made as to when to retire and/or replace an asset.</p> <p>The City continues to experience substantial growth in new technology projects and increased utilization of existing and new technology. There has also been a continued increase in licensing through vendor service agreements.</p> <p>Risk: The City operates many types of IT assets, including hardware, software, and business applications, to support service delivery. It is vital that the City tracks its IT asset inventory and maximizes the usefulness of its IT assets to ensure their continued reliability and availability. If IT asset lifecycles are not managed efficiently and effectively, there is a greater risk of these assets becoming outdated, not meeting the needs of the City and potentially increasing IT security risks.</p>	City Building and Citizen Service Excellence
Parks Infrastructure Planning and Development Audit	<p>Rationale: Through collaboration with residents and stakeholders, Parks Infrastructure Planning and Development is committed to providing an innovative, accessible, sustainable and safe Parks and Open Space system that fosters physical activity, health and wellness for all citizens while meeting the City's strategic parkland objectives.</p> <p>The Parks Infrastructure Planning and Development department consists of three divisions (Parks & Open Space Planning, Parks Delivery and North Maple Regional Park) that work closely with internal and external project stakeholders to plan, design, construct and renew parks and open space areas to ensure the long-term sustainability of the City's greenspace infrastructure.</p> <p>Risk: It is important that the department continues to ensure the sustainable provision of active and passive outdoor recreational and nature experiences that are consistent with developing integrated, complete and livable communities, while meeting the City's planning and growth management strategic objectives.</p>	City Building, Active, Safe and Inclusive Communities and Citizen Service Excellence

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
By Law & Compliance, Licensing & Permit Services: Enforcement Services Audit	<p>Rationale: The City of Vaughan's By-law and Compliance, Licensing and Permit Services issues licenses and permits and maintains, administers, creates, develops and enforces the City's by-laws. By-laws and the related public policies are put in place to ensure a safe and orderly community for all who live, work and play in Vaughan. Licenses and permits establish a regulatory framework and are required to do many things in the City like running a business, hosting a special event and owning an animal. Expansive development and growth, as well as ever increasing emerging issues and legislative changes are significant risks that are and will need to continue to be mitigated.</p> <p>Risk: If services are not delivered in a manner that demonstrates support of the greater public interest and in line with public expectation there could be increased reputational risks to the City. In addition, there could be health and safety issues resulting in possible legal exposure, an adverse affect to wellbeing of residents and the over all quality of life within the City.</p>	Active, Safe and Inclusive Communities and Citizen Service Excellence
VFRS Driver Certification Audit	<p>Rationale: As of January 2nd, 2014, all participating organizations are required to arrange for an independent, comprehensive audit using an audit program and reporting form prepared by the Ministry. Internal Audit received approval from the MTO to do the audit and, going forward, will perform all DCP related audit work.</p> <p>Risk: The risk of not doing the audit is non-compliance with Ontario Legislation. This in turn may result in being removed from the program and incurring additional costs and time being retested by MTO before drivers' licenses can be renewed.</p>	Active, Safe and Inclusive Communities
Internal Audit Department Annual Report	<p>Rationale: In accordance with the City's Internal Audit Policy, an annual report shall be submitted to the Audit Committee 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, 2022. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	Governance & Leadership

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
General Internal Audit Follow-up Program	<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 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>	Governance & Leadership
Anonymous Reporting System Administration	<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>	Governance & Leadership

Financial Impact

Not Applicable.

Broader Regional Impacts/Considerations

Not Applicable.

Conclusion

The 2023 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.

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