

Audit Committee Report

DATE: Monday, February 05, 2024

WARD(S): ALL

TITLE: 2024 INTERNAL AUDIT RISK BASED WORK PLAN

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To present the 2024 Internal Audit Risk Based Work Plan, for approval.

Report Highlights

- The 2024 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 2024 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 2024 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 2024 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 2024 Internal Audit Risk Based Work Plan projects:

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Recreation Services Audit</p>	<p>Rationale: Recreation Services delivers diverse and inclusive recreation programs, services and events that enhance the quality of life and leisure time of Vaughan’s diverse community by supporting the physical, mental and social well-being of our citizens. Through the City’s 10 community centres that include six fitness facilities, five arenas and 10 pools, and in partnership with community service organizations and groups, Recreation Services provides access to a wide range of indoor and outdoor recreation opportunities that keep Vaughan residents of all ages active and engaged.</p> <p>Over the course of COVID-19, Recreation Services has worked diligently to keep community centres open in order to safely provide recreational programs and services to the citizens of Vaughan, launching several initiatives including, virtual programming and events, online fitness classes and snowshoe rentals. In addition, Recreation Services worked to combat the spread of COVID-19 by partnering with York Region to use community centres as vaccine clinics.</p> <p>Risk: According to management, the recovery from COVID-19 is anticipated to take a few years given the current staffing shortage that is impacting the department’s ability to offer more programs. Recreation Services will need to remain dynamic and flexible to meet their objectives in an efficient and effective manner while ensuring satisfaction and excellence in service delivery.</p>	<p>Active, Engaged and Inclusive Communities</p>
<p>Solid Waste Management Audit</p>	<p>Rationale: Environmental Services provides waste collection services to eligible residential properties. These services include the collection of blue box recycling, green bin organics, leaf and yard waste, and collection of residual waste (garbage). In addition, Christmas trees and appliance/metal recovery items are also collected. The department has a comprehensive communication and education program to encourage residents to fully participate in the City’s and Region’s waste diversion programs.</p> <p>Risk: If significant issues were to arise with respect to solid waste management, it could lead to citizen dissatisfaction and reputational risk. In addition, there are operational, health and safety, liability and financial risks if the delivery of services by contractors and staff is not properly managed.</p>	<p>Environmental Sustainability</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Environmental Sustainability and Governance Audit</p>	<p>Rationale: Environmental Sustainability is one of seven Strategic Priorities in the City's 2022 – 2026 Term of Council Strategic Plan. The goal is to protect the environment and foster a sustainable future through our social and economic initiatives. The objectives include Advance Stewardship of Green Infrastructure, Support Community and Corporate Sustainability Initiatives and Invest in Climate Change Mitigation and Resilience.</p> <p>Risk: As the City continues to execute the key activities that support this strategic priority, it is imperative that the key performance indicators are continually reviewed and reflect any environmental issues/changes and their associated risks. It is also important that there are appropriate levels of governance and oversight and that communication protocols are in place to keep stakeholders updated and engaged.</p>	<p>Environmental Sustainability</p>
<p>Insurance and Risk Management Audit</p>	<p>Rationale: Managing risk requires the assistance and cooperation of all City departments, and it is for this reason that the Insurance and Risk Management section of the Office of the City Clerk works with all departments to understand operations and provide support through risk mitigating strategies. The Insurance and Risk Management section is responsible for risk financing, risk control and claims administration.</p> <p>Risk: It is imperative that the City has the appropriate processes and controls in place to ensure that Insurance and Risk Management is able to manage the City's claims and recoveries and ensuring the City is adequately insured, using a risk based approach.</p>	<p>Service Excellence and Accountability</p>
<p>Construction Audit of Carville Community Centre: Phase 3 – Close Out</p>	<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>	<p>City Building and Active, Engaged and Inclusive Communities</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Real Estate Audit</p>	<p>Rationale: The Real Estate Department oversees the negotiation, acquisition, disposition, and leasing of all City properties and buildings while also determining Cash-in-lieu of parkland calculations. They handle property transactions, including purchases, sales, and lease agreements, and ensure compliance with regulations.</p> <p>Risk: Some of the key objectives of the Real Estate Department in 2023 included implementing and overseeing recommendations approved by Council from the Land Acquisition Strategy and review and determine the 2023 cash-in-lieu of parkland dedication and Community Benefits Charges. It is important that these objectives are successful to achieve community satisfaction, meet legislative compliance and to meet the City Building Term of Council strategic initiative.</p>	<p>City Building and Active, Engaged and Inclusive Communities</p>
<p>Consulting and Professional Services Audit</p>	<p>Rationale: As the City continues to grow and work expands, additional resources are needed to provide services. Consulting and professional services are used to either backfill for extra work or perform work where additional skills are needed. Consulting and professional services represent a significant expenditure to the City.</p> <p>Risk: Not having effective controls over the use and administration of consulting and professional services can result in work not meeting expectations, increased costs and reputational damage to the City.</p> <p>An audit of this area, presented in 2020, did not find any evidence of non-compliance to corporate policies. However, improvements were recommended to ensure that risks related to the procurement and use of consultants are effectively and efficiently mitigated. The objective of this audit will focus on whether the actions that have been implemented have improved the City's processes.</p>	<p>Service Excellence and Accountability</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p align="center">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 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, 2023. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	<p align="center">Service Excellence and Accountability</p>
<p align="center">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 align="center">Service Excellence and Accountability</p>
<p align="center">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 align="center">Service Excellence and Accountability</p>

Financial Impact

Not Applicable

Broader Regional Impacts/Considerations

Not Applicable

Conclusion

The 2024 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, consisting of a large, stylized 'K' followed by a horizontal line and a small flourish.

Kevin Shapiro, Director of Internal Audit