Committee of the Whole (2) Report

DATE: Tuesday, January 21, 2020   **WARD(S):** ALL

TITLE: INTERNAL AUDIT REPORT – 2020 INTERNAL AUDIT RISK BASED WORK PLAN

FROM:
Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose
To present the 2020 Internal Audit Risk Based Work Plan, for approval.

Report Highlights
- The 2020 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 2020 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 2020 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 2018 to inform the Term of Council audit plan priorities. A total of 76 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 17 closed questions and 2 open ended questions. After the completion of the survey, the Director of Internal Audit met individually with each member of the Senior Leadership Team to review their department results and to determine whether any of the survey answers needed to be updated.

Over the past few months, 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 2020 has been established

The work plan has two dimensions: what can be done with current resources and what resources are needed to do all relevant projects. Council, as the governing body, ultimately decides on the combination that best meets the City's needs.

The general philosophy of the Internal Audit 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 Committee of the Whole, as to 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.

In last year's work plan, it was identified that 6 of the 11 very high-risk areas and 25 of the 32 high risk areas will not be reviewed in 2019, nor have they been reviewed in the past 5 years. Current estimates indicate that a staff of six would be required to do all relevant identified projects over the 2018 – 2022 term.

Since this time, Council has approved additional resources for the Internal Audit Department to help address this gap. A new Audit Project Manager was approved as part of the 2019 budget, with the position filled in May. A new Audit Project Manager was also approved as part of the 2020 budget, with the expectation that the position will be filled in May 2020. This will bring the department up to a staff of five, which will allow greater coverage to review the very high- and high-risk areas over the remainder of this Term of Council.

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 2020 Internal Audit Risk Based Work Plan priority projects:

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Information Technology Security Audit	**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. 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. **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.	**Operational Performance and Citizen Experience**
IT Governance Audit **[Consulting]**	**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. **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.	**Good Governance and Operational Performance**

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Financial Planning & Budgeting Process **[Consulting]**	**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. **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.	**Good Governance, Operational Performance and Citizen Experience**
Vendor Master File Audit	**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. **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.	**Good Governance, Operational Performance and Citizen Experience**
Municipal Accommodation Tax Audit	**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. 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. **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.	**Economic Prosperity, Investment and Social Capital, Good Governance, Operational Performance and Citizen Experience**

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Building Standards Audit	**Rationale:** The Building Standards department issues permits for the construction, renovation, demolition and re-zoning of buildings. It also issues 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). **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.	**City Building, Operational Performance and Citizen Experience**
Human Resources Audit	**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. 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. **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.	**Staff Engagement**
Construction Audit of Fire Station #7-4: Phase 3	**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. **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.	**Safe, Active and Engaged Communities**

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
General Internal Audit Follow-up Program	**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. **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.	**Good Governance and Operational Performance**
Internal Audit Department Annual Report	**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. 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.	**Good Governance**
Anonymous Reporting System Administration	**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. 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. 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.	**Good Governance**

Financial Impact

Not Applicable

Broader Regional Impacts/Considerations

Not Applicable

Conclusion

The 2020 Internal Audit Risk Based Work Plan has been developed using the best available information and is aligned with the City's Term of Council Service Excellence Strategy Map.

Based on existing resources, Internal Audit will be able to independently and objectively carry out the projects identified in this work plan.

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

Attachments

Not Applicable

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