

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

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

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 align="center">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 align="center">In Progress. It is anticipated that this report will be presented to the Audit Committee in June, 2021</p>
<p align="center">IT Governance Audit</p> <p align="center">[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 align="center">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
<p>Building Standards Audit</p>	<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>	<p>In Progress. It is anticipated that this will be presented to Audit Committee in Q4, 2021</p>
<p>Human Resources Audit</p>	<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>	<p>Cancelled and replaced with VFRS Consulting engagement</p>
<p>Construction Audit of Fire Station #7-4: Phase 3</p>	<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>	<p>In Progress. It is anticipated that this report will be presented to Audit Committee in April, 2021</p>

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

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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