

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
<p>Water, Wastewater and Stormwater Billing and Collection Audit</p>	<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>	<p>Operational Performance and Citizen Experience</p>
<p>Payroll Audit</p>	<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>	<p>Operational Performance and Staff Engagement</p>
<p>Construction Audit of Carville Community Centre: Phase 1 - Planning & Design</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>Safe, Active and Engaged Communities and Operational Performance</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p align="center">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 align="center">Safe, Active and Engaged Communities, Citizen Experience and Operational Performance</p>
<p align="center">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 align="center">Environmental Stewardship, Operational Performance and Citizen Experience</p>
<p align="center">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 align="center">Safe, Active and Engaged Communities, Citizen Experience and Operational Performance</p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p>Fleet Services and VFRS Mechanical Audit</p>	<p>Rationale: Fleet Management Services (FMS) is responsible for administrating 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>	<p>Environmental Stewardship and Operational Performance</p>
<p>Quality Assessment Review</p>	<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>	<p>Good Governance</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, 2020. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	<p>Good Governance</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>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.

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