

# Audit Committee Report

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**DATE:** Monday, January 24, 2022

**WARD(S):** ALL

**TITLE: 2022 INTERNAL AUDIT RISK BASED WORK PLAN**

**FROM:**

Kevin Shapiro, Director of Internal Audit

**ACTION:** DECISION

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**Purpose**

To present the 2022 Internal Audit Risk Based Work Plan, for approval.

**Report Highlights**

- The 2022 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 2022 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 2022 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 2022 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 2022 Internal Audit Risk Based Work Plan projects:

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p><b>Development Engineering Audit</b></p>	<p><b>Rationale:</b> Development Engineering staff are responsible for the expeditious review, approval, and inspection and processing of municipal services for land development. Specifically, this includes completing timely engineering review and approval of development applications and engineering submissions related to the construction of new municipal services, such as roads, sewers and watermain, and construction management and inspections for all development projects throughout the city. This enables the City to establish goals and objectives for land development and adhere to them keeping in mind important social issues, environmental, traffic considerations which promote healthy communities.</p> <p><b>Risk:</b> The number of engineering permit applications more than doubled from 2019 to 2020. It is essential that effective management and oversight over the review and issuance of permits is in place to ensure risks related to social, environmental, and traffic related issues are mitigated, thus promoting healthy communities.</p>	<p><b>City Building, Operational Performance and Citizen Experience</b></p>
<p><b>Access Vaughan Audit</b></p>	<p><b>Rationale:</b> Access Vaughan is the contact centre for the City of Vaughan, providing citizens, businesses and visitors access to non-emergency City related information, programs and services. Access Vaughan offers assistance via telephone, email and in person at City Hall. Access Vaughan also offers interpretive services via telephone in over 150 languages. Access Vaughan has successfully launched their work from home program to continue to provide services during the COVID-19 pandemic. Access Vaughan experienced an average call volume increase of 13% in 2020, with some months experiencing an increase as high as 32%. Furthermore, Access Vaughan experienced an 83% increase in email volume in 2020, with July 2020 experiencing a 92% increase from July 2019.</p> <p><b>Risk:</b> Access Vaughan has developed several strategic objectives to provide accurate and timely information to citizens, business and visitors. It is important that these objectives can be met in an efficient and effective manner to ensure satisfaction and excellence in service delivery.</p>	<p><b>Citizen Experience and Operational Performance</b></p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p><b>Parks Operations Audit</b></p>	<p><b>Rationale:</b> The City of Vaughan's Parks Operations department manages more than two hundred parks, and more than 800 hectares of parks and open space land. Amenities include 273 playgrounds, 18 splashpads, 59 tennis facility locations and 130 courts, 10 skate parks, extensive walking trails, 73 basketball courts, 58 baseball diamonds, 150 soccer fields and more. Parks Operations is also responsible for winter maintenance on City walkways and pathways. Trail systems and other naturalized areas are maintained by the City and receive appropriate maintenance to preserve a natural habitat.</p> <p><b>Risk:</b> If parks and open spaces are not properly maintained, this 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 staff, contractors and other service providers is not properly managed.</p>	<p><b>Environmental Stewardship, Operational Performance and Citizen Experience</b></p>
<p><b>Property Tax and Assessment Audit</b></p>	<p><b>Rationale:</b> The Property Tax and Assessment Department prepares and issues property tax bills to over 112,000 Residential, Commercial and Industrial property owners under the jurisdiction of the Municipal and Assessment Act, as well as collects property taxes and maintains all tax and assessment information. Property taxes are collected for services provided by the City, York Region and local school boards. In 2021, the City of Vaughan will fund approximately \$317.9 million in gross expenditures on delivering property tax-supported programs and services and maintaining City infrastructure (buildings and roads). The City has recently transitioned to a new tax software solution.</p> <p><b>Risk:</b> The City sends out two tax bills a year: interim and final. Without effective controls in place, there is a risk that property owners will not be billed or remit the correct amount owing on a timely basis.</p>	<p><b>Operational Performance, Citizen Experience and Good Governance</b></p>
<p><b>Payment Card Industry Data Security Standard Compliance Audit</b></p>	<p><b>Rationale:</b> The Payment Card Industry Data Security Standard (PCI DSS) is a set of security standards designed to ensure that organizations that accept, process, store or transmit credit card information maintain a secure environment. The standard was created to increase controls around cardholder data to reduce credit card fraud. Since the City stores and processes payment card information in its daily operations, management needs to ensure that the City is compliant to these standards.</p> <p><b>Risk:</b> In addition to non-compliance to PCI DSS, if credit card information is not secured, there is a greater risk that the information may be compromised.</p>	<p><b>Operational Performance and Good Governance</b></p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p><b>Construction Audit of Carville Community Centre: Phase 2 - Construction</b></p>	<p><b>Rationale:</b> 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><b>Risk:</b> 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><b>Safe, Active and Engaged Communities and Operational Performance</b></p>
<p><b>VFRS Driver Certification Audit</b></p>	<p><b>Rationale:</b> As of January 2<sup>nd</sup>, 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><b>Risk:</b> 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>	<p><b>Operational Performance</b></p>
<p><b>Finance Modernization</b></p>	<p><b>Rationale:</b> A key initiative for the City is the implementation of the Finance Modernization project. The purpose of this project is to drive efficiencies through streamlining and automating process and leveraging technology with an outcome of providing relevant, reliable and timely information to all decision makers. Finance Modernization has been ongoing for several years, using a phased implementation approach.</p> <p><b>Risk:</b> 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><b>Operational Performance, Citizen Experience and Good Governance</b></p>

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
<p align="center"><b>Internal Audit Department Annual Report</b></p>	<p><b>Rationale:</b> 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, 2021. 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"><b>Good Governance</b></p>
<p align="center"><b>General Internal Audit Follow-up Program</b></p>	<p><b>Rationale:</b> 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><b>Risk:</b> 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"><b>Good Governance and Operational Performance</b></p>
<p align="center"><b>Anonymous Reporting System Administration</b></p>	<p><b>Rationale:</b> 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"><b>Good Governance</b></p>

## **Financial Impact**

Not Applicable

## **Broader Regional Impacts/Considerations**

Not Applicable

## **Conclusion**

The 2022 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 read 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit