Attachment 1

INTERNAL AUDIT

2019 Internal Audit Risk Based Work Plan

November 2018

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 Audit 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. In order to develop this risk-based work plan, Internal Audit conducted a citywide risk assessment.

CITYWIDE RISK ASSESSMENT METHODOLOGY

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 adversly affect the City.

Internal Audit commenced the risk assessment planning process in Q2 2017. The first step in creating the risk assessment model was to define the City's audit universe, which is a listing of all the City's significant auditable entities. A total of 76 entities were identified by analyzing budget documentation and by reviewing the City's organizational chart. For some areas, we consolodiated entities in order to create efficiencies for the purposes of conducting future audits.

The next step in creating the risk assessment model was to identify and rank the major inherent risks associated with each of the City's significant auditable units. Inherent risk can be defined as the probability of loss arising out of circumstances or existing in an environment, in the absence of any action to control.

A management survey, which measured strategic, reputational, compliance and operational risks was developed, and completed by either the Director or Manager directly responsble for the entity. The survey contained a total of 17 closed questions and 2 open questions.

After the completion of the survey, the Director of Internal Audit met individually with each member of the Senior Management Team to review their department results and to determine whether any of the survey anwers needed to be updated.

Weights were assigned to each question, based on the identified risk (i.e. low, low/medium, medium/high and high) and an additional multiplier was applied, based on the relative importance of the question. Based on the weights and multipliers, each of the 76 entities were ranked, from very high to low. Based on the risk assessment methodology:

- 11 entities were identified as having a very high inherent risk rating.
- 32 entities were identified as having a high inherent risk rating.
- 28 entities were identified as having a medium/high inherent risk rating.
- 5 entities were identified as having a medium/low inherent risk rating.
- 0 entities were identified as having a low inherent risk rating.

A very high, high, or medium/high inherent risk rating does not imply that an auditable entity is being managed ineffectively or that it is not functioning properly. High risk areas may indicate opportunities to address activities which are mission critical, provide substantial support for other internal City operations, reflect high public need, or consume significant resources. The overall results identify the activities with the highest risk factors that may warrant and benefit from additional management action or audit services.

In addition to the entity wide risk assessment, other sources were used for determining risk and work plan priorities. These include:

- Discussions with the corporate management team members
- Insight from Council
- Financial significance
- Current and emerging risks in the local government sector
- High profile issues in other municipalities
- Staff requests
- Themes from previous audits and investigations
- Significant change initiatives

WORK PLAN APPROACH AND PHILOSOPHY

For this Term of Council, Internal Audit will be moving away a from a four-year audit work plan format and replacing it with an annual risk-based work plan. With an annual work plan, Internal Audit will have greater flexibility to ensure that work plan projects are proactively providing assurance on these current and emerging risks. As such, Internal Audit will be bringing forward separate work plans for approval to the Finance, Administration and Audit Committee for 2020, 2021 and 2022, prior to the commencement of each of these years.

Based on current available resources, a list of priority projects for 2019 has been established. The remaining projects were deemed “off plan” but could be brought forward depending on changing risk conditions and the requirements of Council.

The 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 Plan is not fixed. The intent is a dynamic plan where new projects can substitute existing projects. The Director, Internal Audit has the authority to substitute projects but advises Council, through the Finance, Administration and Audit Committee, 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.

STAFFING AND AVAILABLE HOURS

The priority projects are based on a staff of three; a Director, and two Audit Project Managers.

Based on the entity wide risk assessment, 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 2019 – 2022 term.

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 significant client participation to identify risks, agree on issues and develop management relevant action plans.

PRIORITY AUDIT PROJECTS [2019]

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
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**
By Law & Compliance, Licensing & Permit Services	**Rationale:** The City of Vaughan's By-law and Compliance, Licensing and Permit Services issues licenses and permits and maintains and enforces the City's by-laws. By-laws are put in place to ensure a safe and orderly community for all who live, work and play in Vaughan. Licenses and permits are required to do many things in the city like running a business, hosting a special event, owning an animal and doing construction to your home. Expansive development and growth, as well as ever increasing emerging issues and legislative changes are significant risks that will need to be mitigated. **Risk:** If services are not delivered up to public expectation there could be increased reputational risks to the City. In addition, there could be health and safety issues resulting in possible legal exposure.	**Safe, Active and Engaged Communities and Operational Performance**
VBEC	**Rationale:** The City established the Vaughan Business Enterprise Centre (VBEC) in 2001, through a partnership agreement with the Ministry of Research and Innovation (MRI). VBEC's core responsibility is to support local entrepreneurs and small businesses. This is accomplished through the provision of advice and education for entrepreneurs in the early stages of business start-up and growth through one-on-one consultations, business plan development and review, business registrations, business events, and the delivery of business seminars/workshops. **Risk:** VBEC's services, programs and events should be tied to the needs of the business community. The absence of effective administration, stewardship and metrics to track initiatives can result in lost economic opportunities and reputational damage to the City.	**Land Use and City Building**

Audit Project	Rationale and Risks	Strategic Plan Area of Focus
Governance and Accountability - Follow-Up Survey	**Rationale:** Governance and Accountability are key foundation components vital in building a City that shares the trust of both citizens and staff. One of the more important roles of Internal Audit is to evaluate the effectiveness of the City's Governance and Accountability framework. One tool being used is a survey. This will be the 4th time we are administering this survey, with the objective of tracking any changes and further develop trending information. **Risk:** The absence of good governance and accountability can affect the credibility and reputation of the City.	**Good Governance**
IT Audit Project	**Rationale:** Organizations have become increasingly dependent on computerized information systems to carry out their operations and to process, maintain and report essential information. As a result, the reliability of computer generated data is a major concern to organizations. Information Technology audits can help the City determine whether identified risks have been mitigated, corporate policies and procedures are implemented as designed and systems can be relied upon. **Risk:** The absence of a well-controlled IT environment can have several adverse consequences, including higher levels of loss or theft of sensitive information, unauthorized access to information and applications, loss of control over sensitive business information and theft of devices. Any one of these risks can affect the reputation of the City. The specific IT audit project that we will undertake will be communicated later in the year.	**Operational Performance**
VFRS Driver Certification Audit	**Rationale:** Prior to 2014, participating organizations, including municipalities, were subject to periodic limited-scope compliance inspections conducted by the Ministry. As of January 2nd, 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. **Risk:** 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.	**Operational Performance**

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 Finance, Administration and Audit Committee 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, 2018. 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**

APPENDIX

The attached appendix highlights the following:

- The list of priority projects and estimated total number of hours required to complete them over the year. This is based on the current staff level of three.

- The list of "Off Plan Hours" or those projects that cannot be done unless additional resources are available. Current estimates indicate that a staff of six would be needed to do all relevant identified projects.

- The order "Off Plan Projects" will be done should current projects be cancelled, or additional time become available. Council requests or priority supersede the planned order.

APPENDIX

	Priority Plan Hours	Off Plan Hours	Standby Priority	Audit Risk
Projects				
Business Process/Function Reviews				
Construction Audit of Fire Station #7-4: Phase 3	420			High
ByLaw & Compliance, Licensing and Permit Services	840			Very High
VBEC	420			High/Medium
General Internal Audit Follow-up Program	112			Medium
Internal Audit Department Annual Report	90			Medium
Anonymous Reporting System Administration	210			High
IT Audit Project (Co-Sourced)	187			High/Medium
Carryover Projects from 2018 Work Plan	868			
Water Meter Replacement Program		840	1	Very High
VFRS Administration		840	2	High
Parks Development		840	3	High
Water, Wastewater and Storm Water Billings		840	4	Very High
Emergency Planning, Management and Business Recovery Process		840	5	High
Process/Function Reviews - Total	3147	4200		
Education/Advisory Projects				
Governance and Accountability [Follow-Up Survey]	290			High/Medium
Education/Advisory Projects - Total	290	0		
Special Projects				
Driver Certification Program (MTO Compliance)	196			Low
Requests From Council and/or Management/Staff	132			Unknown
Special Projects - Total	328	0		
Internal Projects				
Audit Supervision and Quality Assurance and Improvement Initiatives	420			High/Medium
Internal Audit Internal Projects - Total	420			
TOTAL DIRECT TIME	4185	4200		
Total Required Hours	4185	4200		
Total Available Hours	4185	0		
Resource Surplus (Shortage)	0	(4200)		
Staff Shortage	0	(3)		