

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 16, 2017**

Item 9, Report No. 5, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on May 16, 2017.

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**9 INTERNAL AUDIT REPORT – 2016 ANNUAL REPORT**

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated May 1, 2017, be approved;
- 2) That the following be approved in accordance with Communication C2, memorandum from the Director of Internal Audit, dated April 28, 2017:

That the attached update to the 2015 – 2018 Internal Audit Risk Based Work Plan be received; and

- 3) That Communication C3, presentation material titled *“Internal Audit Annual Report”*, dated May 1, 2017, be received.

**Recommendation**

The Director of Internal Audit recommends:

1. That the attached report, Internal Audit Department 2016 Annual Report be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

There are no direct economic impacts associated with this report.

**Communications Plan**

Not applicable.

**Purpose**

This report outlines the activities of the Internal Audit Department for the period January 1 through December 31, 2016. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.

**Background - Analysis and Options**

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.

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 16, 2017**

Item 9, Finance Report No. 5 – Page 2

The report covers several topics, including:

- An overview of the Internal Audit Department's purpose, governance structure and organizational interrelationships.
- An update on the Department's current status as it relates to staffing, meeting deliverables and performance management.
- An analysis of common themes and issues from prior audit reports.
- The Anonymous Reporting System annual update, including a summary of the issues raised, trend analysis and performance comparison against the NAVEX Global Benchmark.

**Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Corporate Governance and Accountability Framework.

**Regional Implications**

Not applicable.

**Conclusion**

The Internal Audit Department continues to be able to carry out its activities free from interference and remains organizationally independent.

Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of the FA&A Committee should it occur.

In 2017, we will continue to conduct the scheduled engagements as per the Council approved 2015-2018 Internal Audit Risk Based Work Plan, which provides a combination of risk and control advice and assurance designed to add value and improve the City's operations.

**Attachment**

1. Internal Audit Report – 2016 Annual Report

**Report prepared by:**

Kevin Shapiro CIA CFE CRMA  
Director, Internal Audit

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)



## memorandum

<u>C 2</u>
COMMUNICATION
FAA- <u>May 1/17</u>
ITEM - <u>9</u>

**DATE:** April 28, 2017  
**TO:** Honourable Mayor Bevilacqua and Members of Council  
**FROM:** Kevin Shapiro, Director of Internal Audit  
**RE:** **REPORT #5, ITEM 9, OF THE MAY 1, 2017 FINANCE, ADMINISTRATION AND AUDIT COMMITTEE**

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### Recommendation

The Director of Internal Audit recommends:

1. That the attached update to the 2015 – 2018 Internal Audit Risk Based Work Plan be received.

### Purpose

To provide an update on the status of the 2015 – 2018 Internal Audit Risk Based Work Plan.

### Background

The 2015 – 2018 Internal Audit Risk Based Work Plan was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

The attached report provides a high level summary of all the work plan engagements that were scheduled for this Term of Council and their current status.

### Conclusion

Internal Audit has a professional responsibility to develop an audit work plan that focuses on the key risks in the City. The work plan should be dynamic and flexible. Changes to the work plan may be required occasionally to reflect emerging risks and changes in strategic objectives.

Based on existing resources, Internal Audit will be able to execute the remaining engagements on the Council approved 2015-2018 Internal Audit Risk Based Work Plan.

### Attachment

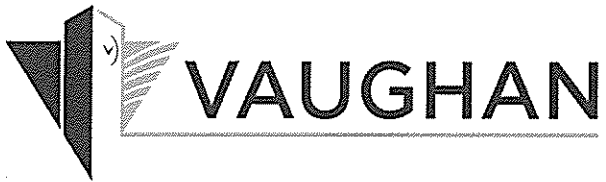
1. 2015 – 2018 Internal Audit Risk Based Work Plan – Current Status and Engagement Schedule

### Report prepared by:

Kevin Shapiro CIA CFE CRMA  
Director, Internal Audit

Respectfully submitted,

Kevin Shapiro CIA CFE CRMA  
Director, Internal Audit



# INTERNAL AUDIT

## **2015-2018 Internal Audit Risk Based Work Plan - Current Status and Engagement Schedule**

April 2017

# INTERNAL AUDIT REPORT

## 2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

### CURRENT STATUS AND ENGAGEMENT SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
Recreation and Culture Revenue Audit	<p><b>Rationale:</b> Recreation and Culture represents the City's third highest expenditure (approximately \$20M). Recreational and Culture programs are largely fee supported, contributing approximately \$18M in revenue. These services have high citizen focus.</p> <p><b>Risk:</b> If services are not delivered up to public expectation there could be increased public dissatisfaction. In addition, there is some financial risk as there are significant revenues.</p>	Complete	Presented to FA&A on March 9, 2015
Road Operations Audit	<p><b>Rationale:</b> The City has a responsibility to maintain safe roads and sidewalks. This has a high citizen focus and could have a potential reputational risk. Maintenance standards are set by City Council but must, at least, meet legislated standards set by the province.</p> <p><b>Risk:</b> The absence of an effective maintenance program can result in serious injury. Not maintaining complete or accurate records could result in the inability of the City to demonstrate compliance resulting in fines, penalties or potential litigation.</p>	Complete	Presented to FA&A on September 8, 2015
Hiring Practices Audit	<p><b>Rationale:</b> This project was added to the work plan as a direct result of the number of anonymous reports received related to hiring irregularities during the first year of the system's operation.</p> <p><b>Risk:</b> The absence of an effective recruitment process can result in not hiring the best available talent, damage staff morale and cause reputational damage to the City.</p>	Complete	Presented to FA&A on September 8, 2015

# INTERNAL AUDIT REPORT

## 2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
<b>Information Technology General Controls Review</b>	<p><b>Rationale:</b> Information and the technology supporting information are vital for the City to operate effectively. Critical applications such as the JDE system reside on servers within City facilities and are required to be protected from unauthorized access or loss.</p> <p><b>Risk:</b> The absence of effective physical and logical access controls could result in data loss, privacy issues and manipulation of data. This could result in fines and penalties related to compliance legislation and reputational damage to the City.</p>	<p><b>Complete</b></p>	<p><b>Presented to FA&amp;A on December 8, 2015</b></p>
<b>Corporate Overtime Audit</b>	<p><b>Rationale:</b> Hourly paid employees are entitled to overtime as per legislation and negotiated labour agreements. Tracking and paying overtime is supported by timekeeping systems to help ensure the right amount is paid based on entitlement.</p> <p><b>Risk:</b> If time keeping systems are not effective there is the risk that incorrect overtime payments can be made resulting in financial loss and non-compliance with agreements.</p>	<p><b>Complete</b></p>	<p><b>Presented to FA&amp;A on February 1, 2016</b></p>
<b>General Internal Audit Follow-up Program</b>	<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 be implemented. Risk and control exposures could still be outstanding and 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 warranted.</p>	<p><b>Ongoing</b></p>	<p><b>Ongoing activity with annual report to FA&amp;A.</b></p> <p><b>Last presented: October 31, 2016 FA&amp;A</b></p> <p><b>Next Scheduled Report: September 20, 2017 FA&amp;A</b></p>

**INTERNAL AUDIT REPORT**

**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Status</b>	<b>Reporting Date</b>
<p><b>Driver Certification Process [DCP]</b></p> <p><b>[MTO Compliance]</b></p>	<p><b>Rationale:</b> Prior to 2014, participating organizations, including municipalities, were subject to periodic limited-scope compliance inspections conducted by the Ministry. As of January 2, 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 performing the audit is non-compliance with Driver Certification Program requirements and the City's agreement with the MTO. This in turn may result in the removal of the City from the Program and additional costs and time for driver training and testing by the MTO before drivers' licenses can be renewed and/or upgraded.</p>	<p><b>Complete</b></p>	<p><b>VFRS Audits presented March 9 and June 15 2015 FA&amp;A</b></p> <p><b>VFRS and Fleet Services DCP Audits presented on September 6, 2016 FA&amp;A</b></p> <p><b>***There may be a requirement to perform a Specified Procedures Audit for Fleet Services in 2018***</b></p>
<p><b>Anonymous Reporting System Administration</b></p>	<p><b>Rationale:</b> The City adopted an Anonymous Reporting System in 2014. The purpose of the system is to allow for staff and management to have an alternative method to raise concerns or issues that may negatively impact the City.</p> <p><b>Risk:</b> The risk of not properly administering the Anonymous Reporting System is that staff may not be forthcoming in communicating bad news or wrongdoing. This could lead to missed opportunities to identify risk areas and to improve processes and controls which could lead to increased operational and reputational risk.</p>	<p><b>Ongoing</b></p>	<p><b>Ongoing activity with annual report to FA&amp;A.</b></p> <p><b>Last presented: May 30, 2016 FA&amp;A</b></p> <p><b>Next Scheduled Report: As part of Internal Audit Annual Report, May 1, 2017 FA&amp;A</b></p>

# INTERNAL AUDIT REPORT

## 2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
<p><b>Service Excellence Strategy</b></p> <p>[Consulting]</p>	<p><b>Rationale:</b> On September 30, 2015 City Council approved the Service Excellence Strategy Map that identifies Council's priorities for 2014-2018 and the strategic initiatives the City will undertake to build capacity, focus and deliver on these priorities. The Map was developed to align our priorities, people, processes and technology so that we can deliver our commitments for this term of Council.</p> <p><b>Risk:</b> The risk of not administering the strategy efficiently and effectively may negatively impact the projects, anticipated benefits, investment and timelines for improving citizen engagement, operational performance and employee engagement. This could lead to missed opportunities to improve processes and controls which could lead to increased operational and reputational risk.</p>	<p>Ongoing</p>	<p>Ongoing</p> <p>Management may wish to report how Internal Audit has been consulted within their reports.</p>
<p><b>VBEC</b></p>	<p><b>Rationale:</b> 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.</p> <p><b>Risk:</b> 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.</p>	<p>Complete</p>	<p>Presented to CW (CS) on December 5, 2016</p>



**INTERNAL AUDIT REPORT**

**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Status</b>	<b>Reporting Date</b>
<p><b>Event Management</b></p>	<p><b>Rationale:</b> The City sponsors events that help promote various charities and related City wide initiatives. Good administration and stewardship of related funds is vital in maintaining event integrity.</p> <p><b>Risk:</b> Events supported by Council have high media and citizen visibility. The absence of effective administration and stewardship controls can result in financial loss and negative public perception.</p>	<p><b>Complete</b></p>	<p><b>Scheduled to be presented on June 6, 2017 FA&amp;A</b></p>
<p><b>Construction Audit of Fire Station #7-4</b></p>	<p><b>Rationale:</b> 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><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>Phase 1 In Progress</b></p>	<p><b>The Construction Audit of Fire Station #7-4 will encompass the complete lifecycle of the project. It is anticipated that audit reports will be issued after the completion of the Planning and Design, and Bid and Procurement Phases, Construction Phase and the Close Out Phase. The timing of these reports is dependent on the actual construction project timing.</b></p>

**INTERNAL AUDIT REPORT**

**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Status</b>	<b>Reporting Date</b>
<b>Social Media</b>	<p><b>Rationale:</b> Social media is defined as using Internet based applications to send and/or collaborate on information. Public sector transparency and accountability is supported by electronic social media, the use of which has grown significantly in the City of Vaughan.</p> <p><b>Risk:</b> Anyone with an Internet based device can, with near anonymity and without accountability, participate in public or private information or disinformation. The absence of effective social media communication protocol combined with the potential misuse of social media can result in data privacy issues, reputational damage to the City and erosion of trust.</p>	<b>Complete</b>	<b>Presented to FA&amp;A on March 6, 2017</b>
<b>Legal Services</b>	<p><b>Rationale:</b> The Office of the City Solicitor provides a range of legal services that supports the City's corporate objectives through strategic legal advice and real estate services. As the City continues to grow and work expands, it is important to ensure that the services provided continue to meet the City's objectives.</p> <p><b>Risk:</b> Legal processes positively contribute to the City's business objectives. However, if not managed properly, there may be increased risk of liabilities, increased costs/expenses and damage to the City's reputation.</p>	<b>2017</b>	<b>TBD</b>
<b>P-Card Compliance Review</b>	<p><b>Rationale:</b> P-Cards allow for the purchase of low value goods in a timely and cost effective manner. When properly issued and used, they support the purchase of low value goods more efficiently with the capability of improving control and accountability.</p> <p><b>Risk:</b> If P-Cards are not used properly or in compliance with policy, the City could face some degree of financial loss, as well as public exposure or reputational risk leading to citizen and vendor dissatisfaction.</p>	<b>In Progress</b>	<b>TBD</b>

**INTERNAL AUDIT REPORT**

**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
<p><b>Financial Planning &amp; Budgeting Process</b></p>	<p><b>Rationale:</b> 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. Creating a Financial Master Plan to ensure sustainable fiscal policies and management of assets is a part of the Service Excellence Strategy.</p> <p><b>Risk:</b> An ineffective financial planning &amp; 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><b>Deferred to next Term of Council</b></p>	<p><b>Project was replaced with the Emergency, Single and Sole Source Procurement Audit. This audit is scheduled to be presented at either the June 6, 2017 or September 20, 2017 FA&amp;A</b></p>
<p><b>Forestry Operations</b></p>	<p><b>Rationale:</b> Re-establishing the urban tree canopy is a Service Excellence Term of Council Priority. Maintaining city trees is a significant part of promoting community health and environmental sustainability.</p> <p><b>Risk:</b> If trees are not properly maintained, this could lead to citizen dissatisfaction and damage reputation. In addition, there is a financial risk if the delivery of services by contractors and other service providers is not properly managed.</p>	<p><b>2017</b></p>	<p><b>TBD</b></p>

# INTERNAL AUDIT REPORT

## 2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Status	Reporting Date
<b>Governance and Accountability - Follow-Up Survey</b>	<p><b>Rationale:</b> 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 survey has been done in 2013 and 2015 and will be redone in 2017 to track any changes and further develop trending information.</p> <p><b>Risk:</b> The absence of good governance and accountability can affect the credibility and reputation of the City.</p>	<p>Completed in 2015</p> <p>[Next Scheduled Date – 2017]</p>	<p>2017 Project will commence in late Q3. It is expected that the results will be presented in Q1 2018.</p>
<b>Facility Maintenance Services</b>	<p><b>Rationale:</b> The City's buildings and facilities have a high operating budget and high public exposure. The operation and maintenance of these assets are vital in supporting the City's vision of demonstrating service delivery excellence and community safety. Significant organizational changes were made in 2014 and an audit will determine if previously identified issues have been resolved.</p> <p><b>Risk:</b> If buildings and facilities are not adequately maintained citizen dissatisfaction would increase. In addition, there could be health and safety issues resulting in possible legal exposure.</p>	<p>2017</p>	<p>TBD</p>
<b>Corporate Security</b>	<p><b>Rationale:</b> Facility Maintenance Services maintains and manages the security of all City of Vaughan owned buildings and is responsible for developing, implementing and maintaining a security strategy throughout the organization as it relates to the Criminal Code of Canada, Trespass to Property Act and the Public Works Protection Act.</p> <p><b>Risk:</b> Not having an effective corporate security strategy can result in increased risk to public safety, damage to City property and increased liability and reputational risk.</p>	<p>2018</p>	<p>TBD</p>

**INTERNAL AUDIT REPORT**

**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Status</b>	<b>Reporting Date</b>
<p><b>Consulting and Professional Services</b></p>	<p><b>Rationale:</b> As the City continues to grow and work expands, additional resources are needed to provide services. Consulting and professional services are used to either backfill for extra work or perform work where additional skills are needed. Consulting and professional services represent a significant expenditure to the City.</p> <p><b>Risk:</b> Not having effective controls over the use and administration of consulting and professional services can result in work not meeting expectations, increased costs and reputational damage to the City.</p>	<p>2018</p>	<p>TBD</p>
<p><b>Fire Department Administration</b></p>	<p><b>Rationale:</b> Fire and Rescue Services represents over 25% of the City's total staff and is the largest annual expenditure at \$41M. In addition, these services have high citizen focus and public visibility.</p> <p><b>Risk:</b> If administrative services do not properly support fire operations there is the risk of non-compliance with legislation and possible unnecessary spending.</p>	<p>2018</p>	<p>TBD</p>
<p><b>Water/Wastewater</b></p>	<p><b>Rationale:</b> Water supply for all municipalities is closely regulated by the Province of Ontario which provides assurance to citizens that drinking water is safe. An audit done in 2012 concluded that the City of Vaughan has processes in place that meet and, in some cases, exceed the Ontario regulations. The audit did, however, identify issues related to service contract acquisition and administration.</p> <p><b>Risk:</b> Ineffective administration controls could result in overpayments or the inability to monitor contract performance. A follow-up audit was originally scheduled to determine if processes have been improved. However, due to changes in management and time elapsed, the project will change from a Follow-up Audit to a brand new audit of Water and Wastewater Operations.</p>	<p>2018</p>	<p>TBD</p>

**INTERNAL AUDIT REPORT**

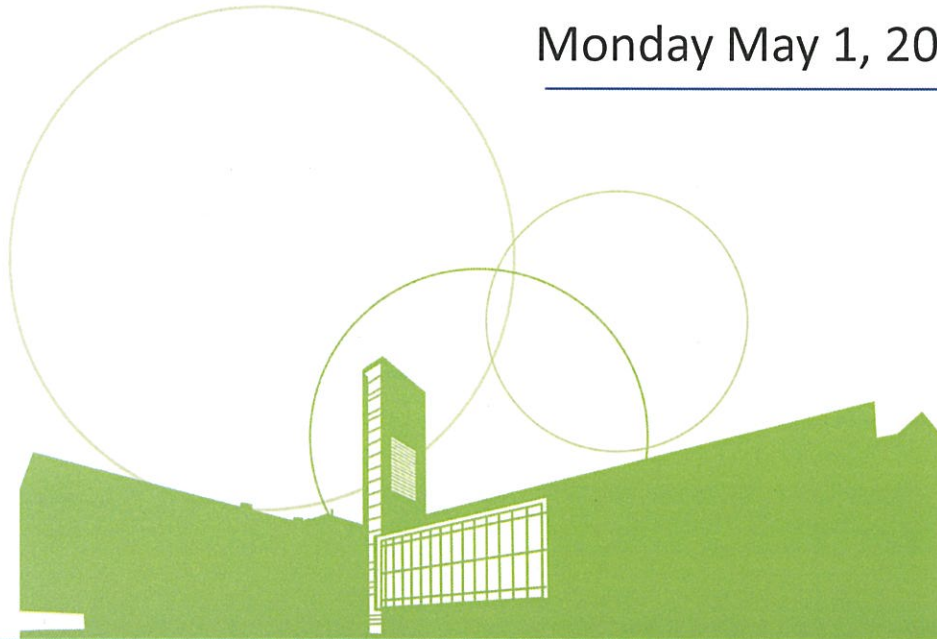
**2015 – 2018 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Status</b>	<b>Reporting Date</b>
<p><b>Ethics/Code of Conduct Review</b>  [Consulting]</p>	<p><b>Rationale:</b> Good corporate ethics and a Code of Conduct are a foundation of good governance and accountability in the City. Review of the Code helps provide assurance that the Code remains relevant and effective for the City.</p> <p><b>Risk:</b> An out-of-date Code of Conduct may not reflect the current values of the City or may not be clear on expected employee behavior. This could result in employee actions unbecoming of those expected possibly leading to negative employee morale, perceived unfairness and/or public embarrassment.</p>	<p>2018</p>	<p>TBD</p>
<p><b>Fraud Risk Assessment and Education</b>  [Consulting / Policy Support]</p>	<p><b>Rationale:</b> From a global perspective, fraud is a rapidly emerging risk having significant impact on a lot of organizations both public and private. Better practice suggests organizations do Fraud Risk Assessments, Policy Reviews and Organizational Education.</p> <p><b>Risk:</b> Absence of a Policy, education or a proper assessment could result in any aspect of fraud not being properly mitigated.</p>	<p>2018  [Some Advisory Work Completed in 2015]</p>	<p>TBD</p>

# Internal Audit Annual Report

Monday May 1, 2017

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# Today's Presentation

- Internal Audit Governance Structure
- Measuring Internal Audit's Performance
- Common Themes and Issues
- Anonymous Reporting System Annual Update
- Questions



# Internal Audit's Purpose

- Provides independent, objective assurance and consulting activity designed to add value and improve the City's operations
- Systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- Term of Council Priority of "Continue to Advance a Culture of Excellence in Governance"

# Functional Reporting To Council – Council Responsibilities

- Approving Audit Charter and Risk Based Work Plan
- Ensuring that Internal Audit has sufficient authority and standing to carry out its tasks effectively
- Making appropriate inquiries to determine whether there are inappropriate scope or resource limitations
- Providing direct access to the FA&A Chair and FA&A committee members

# Functional Reporting To Council – Council Responsibilities

- Receiving communications from the Director of Internal Audit
- Reviewing and monitoring management's responsiveness to audit findings and recommendations
- Monitoring and assessing the quality and effectiveness of Internal Audit
- Appointment and removal of the Director of Internal Audit

## Director of IA assists Council by:

- Reviewing the Internal Audit governance structure
- Annual declaration of organizational independence
- Providing feedback on the sufficiency of internal audit resources
- Presenting reports related to the Department's activities through FA&A
- Providing annual updates on ARS, outstanding management action plans and Internal Audit Performance



# Administrative Reporting

- Helps facilitate day-to-day operations
  - Providing appropriate office space, supplies and equipment
  - Human Resources, Information Technology, and Purchasing support
  - Internal communications and information flow
  - Administration of the Internal Audit activity's policies and procedures

# Annual Declaration of Independence

*Internal Audit Department has been able to carry out its activities free from management interference and remains organizationally independent.*

*Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of the FA&A Committee should it occur.*

# 2016 Performance Highlights

- Anonymous Reports were investigated and closed three weeks faster than the Global Benchmark
- 100% acceptance rate for all audit recommendations
- Internal Audit staff met their respective professional training requirements

# Common Themes and Issues

1. Technology
2. Data Capture and Analytics
3. Strategic Procurement
4. Project Management, Contract administration and Management Oversight
5. Providing more clarity on roles, responsibilities and expectations of stakeholders



# Anonymous Reporting System

- For Staff Use Only
- Fully functional as of April 15, 2014
- Outsourced Intake
- Internal Audit [Co-ordination and Reporting]
- Investigating Anonymous Reports
- Annual Reporting to Council
- 46 Total Reports (16 – 2014, 18 – 2015, 12 – 2016)

# E-Learning Module

- Educational training tool designed to increase employee trust, confidence and awareness of the system
- Reinforces the City's commitment to effective governance and accountability
- Launched in November 2016
- Mandatory Course

# COV ARS Results vs Benchmark Criteria

1. Substantiation Rates
2. Reporter Follow-up Rate
3. Anonymous vs Named Reporters

# ARS Results – Trends & Themes

## 1. Substantiation Rates

City of Vaughan vs Global Benchmark	Substantiation Rates		
	2014	2015	2016
City of Vaughan	31%	28%	25%
Global Benchmark	40%	41%	40%

# ARS Results – Trends & Themes

## 2. Reporter Follow-up Rate

Year	Benchmark Survey	Vaughan
2014	33%	79%
2015	30%	28%
2016	30%	17%



# ARS Results vs Benchmark Criteria

## 3. Anonymous vs Named Reporters

Year	Anonymous		Named	
	Benchmark Survey	Vaughan	Benchmark Survey	Vaughan
2014	61%	94%	39%	6%
2015	59%	100%	41%	0%
2016	58%	92%	42%	8%

# Questions?



**INTERNAL AUDIT REPORT – 2016 ANNUAL REPORT**

**Recommendation**

The Director of Internal Audit recommends:

1. That the attached report, Internal Audit Department 2016 Annual Report be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

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**Communications Plan**

Not applicable.

**Purpose**

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**Background - Analysis and Options**

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The report covers several topics, including:

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- An update on the Department's current status as it relates to staffing, meeting deliverables and performance management.
- An analysis of common themes and issues from prior audit reports.
- The Anonymous Reporting System annual update, including a summary of the issues raised, trend analysis and performance comparison against the NAVEX Global Benchmark.

**Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Corporate Governance and Accountability Framework.



### **Regional Implications**

Not applicable.

### **Conclusion**

The Internal Audit Department continues to be able to carry out its activities free from interference and remains organizationally independent.

Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of the FA&A Committee should it occur.

In 2017, we will continue to conduct the scheduled engagements as per the Council approved 2015-2018 Internal Audit Risk Based Work Plan, which provides a combination of risk and control advice and assurance designed to add value and improve the City's operations.

### **Attachment**

1. Internal Audit Report – 2016 Annual Report

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Director, Internal Audit

Respectfully submitted,

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Director, Internal Audit



# INTERNAL AUDIT

**Annual Report:**

**January 2016 – December 2016**

**March 2017**

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#### PURPOSE OF INTERNAL AUDIT

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.

The Internal Audit Department's activities support the City's Service Excellence Strategy Term of Council Priority of "Continue to Advance a Culture of Excellence in Governance".

#### INTERNAL AUDIT – GOVERNANCE STRUCTURE

Internal Audit began at the City of Vaughan in 2005. The position "Operational and Compliance Auditor" was established and the function operated as a one person shop for seven years. The approach to Internal Audit was primarily departmental focused with emphasis on compliance audits (compliance with policy) and financial transactions. The initial goal was to cover all operating departments and this was largely achieved over the seven year period.

In November, 2011, as part of a City Wide Corporate Structure Review, it was recommended that the role of the City's Internal Audit Department be strengthened and expanded. In August 2012, the City introduced a Director of Internal Audit position, reporting functionally to Council through the Finance, Administration and Audit Committee (FA&A) of Council and administratively to the City Manager.

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Audit (Attribute Standards 1110 - Organizational Independence), the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. Appropriate reporting lines are critical to achieve the independence, objectivity, and organizational stature for an internal audit function necessary to effectively fulfill its obligations. Reporting lines are also critical to ensuring the appropriate flow of information and access to key executives and managers.

#### *Functional Reporting Relationship:*

The functional reporting relationship to Council through FA&A helps ensure that the Internal Audit Department is free to work independently and objectively, and is ultimately responsible for ensuring that Internal Audit has the resources and access to information to enable it to fulfil its mandate. These functional responsibilities include:

- Approving the Internal Audit Charter and Internal Audit Risk Based Work Plan.
- Ensuring that Internal Audit is appropriately resourced, and has sufficient authority and standing to carry out its tasks effectively.
- Making appropriate inquiries of management and the Director of Internal Audit to determine whether there are inappropriate scope or resource limitations.

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- Ensuring that the Director of Internal Audit has direct access to the FA&A Chair and FA&A committee members, and is accountable to the Committee.
- Receiving communications from the Director of Internal Audit on the Department's activities relative to its risk based work plan and other related matters.
- Reviewing and monitoring management's responsiveness to audit findings and recommendations.
- Monitoring and assessing the quality and effectiveness of Internal Audit, and its role in the overall context of the City's governance framework.
- Approving decisions regarding the appointment and removal of the Director of Internal Audit.
- Approving the compensation of the Director of Internal Audit.

The Director of Internal Audit assists Council in fulfilling their functional responsibilities by:

- Reviewing the Internal Audit governance structure and attesting to the Department's organizational independence on an annual basis.
- Providing feedback on the sufficiency of internal audit resources through the Term of Council Risk Based Work Plan and through participation in the City's annual budgeting process.
- Providing briefing sessions to the Mayor and Members of Council on emerging risks.
- Presenting reports related to the Department's activities through FA&A.
- Presenting an annual update on the status of all outstanding management action plans so that Council can review and monitor management's responsiveness.
- Presenting an annual update on the effectiveness of the City's Anonymous Reporting System.
- Reporting annually on the Department's performance. This information can be used by Council to gauge the quality, efficiency and effectiveness of the Internal Audit Department and the Director of Internal Audit.

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#### Administrative Reporting Relationship:

The administrative reporting relationship to the City Manager helps facilitate the day-to-day operations of the Internal Audit Department. This includes:

- Providing appropriate office space, supplies and equipment.
- Human Resources, Information Technology, and Purchasing support.
- Internal communications and information flow.
- Administration of the Internal Audit activity's policies and procedures.

#### Internal Audit Policy:

The Internal Audit Charter was developed and approved by FA&A on October 2012. The Charter was revised and renamed the Internal Audit Policy, and approved by Council in June, 2014.

The Internal Audit Policy is a formal document that defines the Internal Audit Department's purpose, authority, and responsibility. It establishes the Internal Audit Department's position within the City, including the nature of the functional reporting relationship with Council; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

The policy requires that it be reviewed at least once a year to ensure that it is up-to-date and effective. Based on the review Internal Audit conducted in December 2016, the policy remains up-to-date and effective, and no further revisions are recommended at this time.

#### Annual Declaration of Organizational Independence:

According to both the City's Internal Audit Policy and IIA Attribute Standards 1110 - Organizational Independence, the Director of Internal Audit must confirm to FA&A at least annually, the organizational independence of the internal audit activity. In addition, IIA standard 1110.A1 states that the "internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications."

***This statement confirms that the Internal Audit Department has been able to carry out its activities free from management interference and remains organizationally independent.***

***Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of the FA&A Committee should it occur.***

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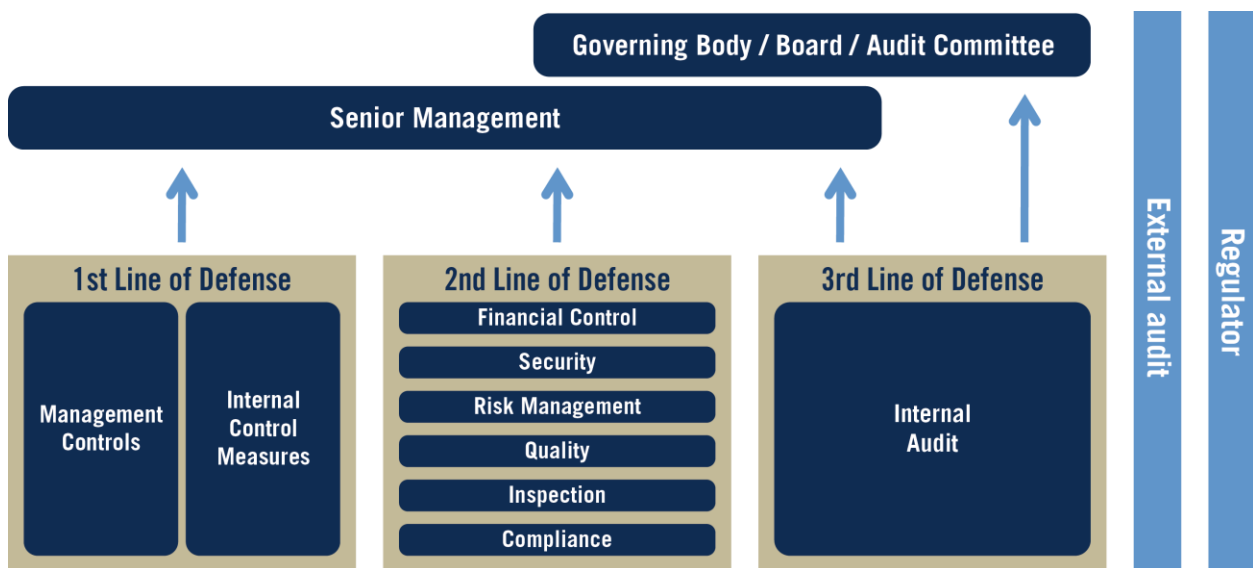
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Three Lines of Defense Model:

The IIA's Three Lines of Defense model helps illustrate the interrelationships of organizational risk and control. While many of these elements are already in place at the City, opportunities exist to formally establish an entity wide risk management framework.

The Model distinguishes among three groups (or lines) involved in effective risk management:

- Functions that own and manage risks.
- Functions that oversee risks.
- Functions that provide independent assurance.



According to the model, Council is responsible for providing direction to management with respect to the City's risk appetite. Council would delegate to the City Manager primary ownership, accountability, and responsibility for operational risk management and control. It is management's responsibility to provide direction to staff with respect to risk management and ensure that the City's activities are in line with the City's overall risk appetite.

Under the first line of defense, management would have ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

The second line of defense consists of activities covered by several components of internal governance. This line of defense monitors and facilitates the implementation of effective risk management practices by assisting management in reporting adequate risk related information up and down the organization.

Internal audit forms the City's third line of defence. Through a risk-based approach, Internal Audit provides assurance on how effectively the City assesses and manages its risks and the efficiency and effectiveness of the first and second lines of defence. Internal Audit is also well-



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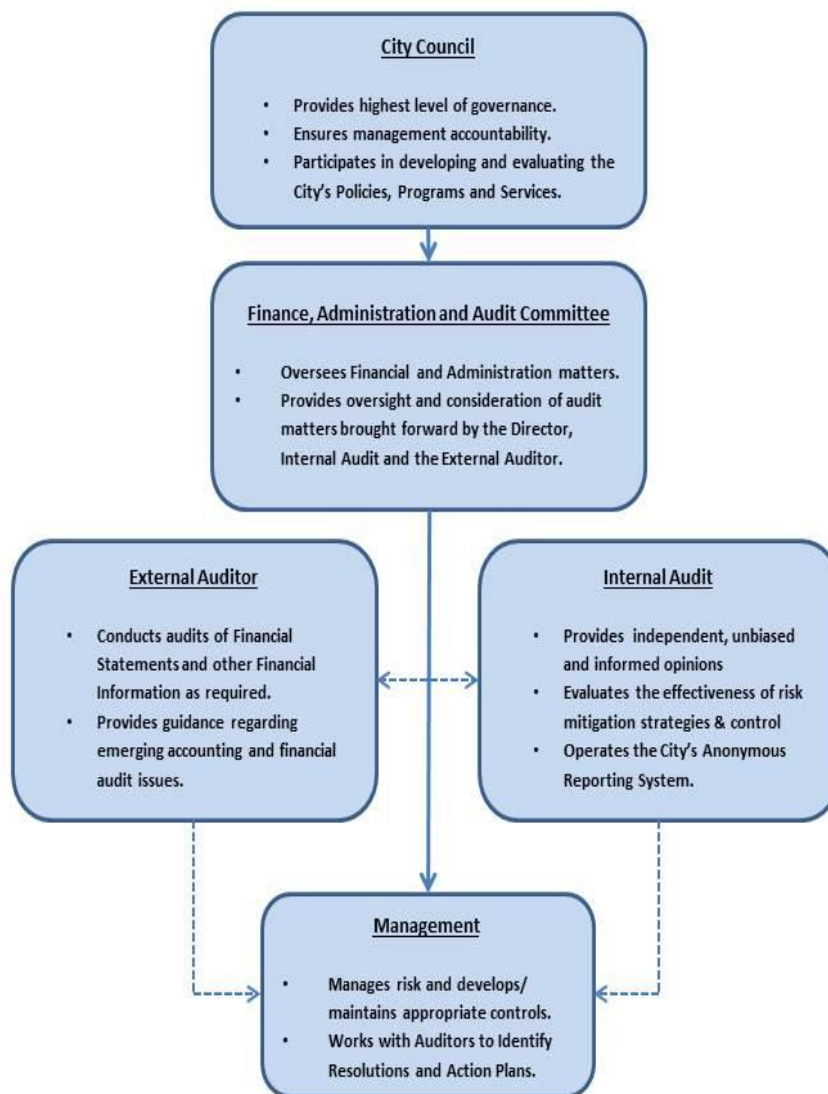
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placed and equipped to fulfil an advisory role on the coordination of assurance, effective ways of improving existing processes, and assisting management in implementing recommended improvements.

### Governance Interrelationships:

The diagram below provides a high-level overview of the roles, responsibilities and the interrelationships of City Council, the Finance, Administration and Audit Committee, Management, the Internal Audit Function and the External Auditor. Each group, both individually and collectively supports the City in effectively meeting its goals while providing assurance that City operations are being managed under the principles of good governance, effective risk management, relevant and value added controls and cost effectiveness.



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#### **INTERNAL AUDIT AT THE CITY OF VAUGHAN – CURRENT STATUS**

The Internal Audit Department underwent further transformation in 2016 with the retirement of the City's first Director of Internal Audit at the beginning of the year. After an extensive recruitment process, Council appointed the City's Audit Project Manager to the position of Director. A new Audit Project Manager was subsequently recruited and commenced employment in August.

With a staff of three, Internal Audit will be able to execute the remaining engagements on the Council approved 2015-2018 Internal Audit Risk Based Work Plan. Two versions were presented with the original work plan. One version listed priority projects that could be achieved with the existing staff over a four year period. The second version included all identifiable projects. Three additional resources would have been required at that time to complete them. These projects were left on the work plan as "Off Plan Hours", and may be used to substitute other planned projects in case of delays or changes in the City's risk environment.

The most significant challenge for the City's Internal Audit Department is to properly assess the control and risk management environment with limited resources. As a rapidly growing and evolving community, management will have to make critical decisions balancing effective control and risk management with longer term financial sustainability and efficiencies. Internal Audit provides value when it can advise management on the appropriate level of control and provide assurance to Council that controls are working effectively.

The risk environment at the City has become more complex and sophisticated due to rapid growth, internal/external changes and technology. Council approval and support for the Term of Council Service Excellence Strategic Initiatives will help pave the way for some of the much needed investments in people and technology. It is important for the City to continue to make investments in continuous improvement to support service excellence, while balancing the appropriate risk, control, cost and value.

Internal Audit can help management in assessing key risks to ensure that they are being effectively managed. The challenge is finding the appropriate balance between risk and control. While being a significant challenge to both the City and Internal Audit, it also provides the best opportunity to better manage the City going forward.

**ROLE AND EXPECTED OUTCOME OF A FULL SERVICE INTERNAL AUDIT FUNCTION**

The following are the expected outcomes for a well-functioning internal audit function:

- Providing assurance that key risks that could harm the City are effectively managed.
- Providing assurance that key controls function as intended and support value to the City.
- Providing advice to City departments to help them develop risk mitigation strategies to better serve the public in service delivery.
- Providing education to support other departments in establishing and maintaining good governance, accountability and control.
- Supporting the City in its objective to maintain transparency and openness.

Internal Audit achieves these outcomes through two primary roles:

1. **Stewardship Role** – These are engagements and projects designed to provide reasonable assurance, through review of existing operations and processes, that the City is managing resources effectively and efficiently, is in compliance with policies and legislation and that controls are properly functioning as intended.
2. **Agent of Change Role** – This role is proactive and forward thinking consisting of engagements and projects that focus on strategic and operational risk and control. These are primarily advisory assignments that offer a better opportunity to serve the changing needs of the City and help support better management of organizational risk.

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#### MEASURING PERFORMANCE

##### Past Performance:

In 2012, Internal Audit initiated a survey approach to measure aspects of performance. The survey was developed by the Institute of Internal Auditors (IIA) as a component of their Quality Assurance Program.

The survey was conducted annually between 2012 and 2014. Due to significant organization wide changes, the survey was not conducted in 2015 and 2016.

The results of the 2014 survey indicated that:

- Overall, there was a 78% satisfaction rate with Internal Audit services (responses that indicated agreement or strong agreement that services are effective). The dissatisfaction rate was 2% (responses disagreeing or strongly disagreeing that services are effective). The 20% “Don’t Know” rate represents those questions that respondents had insufficient knowledge or experience to answer one way or another.
- Internal Audit’s overall weighted rating was 3.38/4.00. The weighted rating is adjusted to remove the “Don’t Know” responses and present the positive or negative responses only. Based on the IIA current database of 85 organizations (Global), the average overall weighted rating is 3.29/4.00. Vaughan’s internal audit has a lower dissatisfaction rate, hence the higher weighting than other benchmark organizations.
- Based on the IIA’s database of 85 organizations participating in the survey, the satisfaction rate was 78%, the dissatisfaction rate was 7% and the “don’t knows” represented 15% of all respondents. Overall, Vaughan’s internal audit function compares favourably with the other organizations that have participated in the survey.

Results were consistent over the three years indicating that Internal Audit is achieving its goal in partnering with management and providing value to the City.

##### Performance Measurement Moving Forward:

Internal Audit should effectively demonstrate its value as a key component of the City’s governance framework and lead by example with strong, relevant and reliable performance measures. In order to maintain and enhance internal audit’s credibility, its effectiveness and efficiency should be evaluated.

Both qualitative and quantitative metrics are important in demonstrating Internal Audit’s performance.

Quantitative performance metrics are often based on existing or obtainable data and are easily understood (e.g., percentage of completed vs. planned engagements). They often require less effort to collect and are readily comparable, year over year.

Qualitative metrics are often based on the collection of unique information through more time intensive methods such as survey research or interviews. They offer a broad view of performance on a range of topics that can provide depth to quantitative metrics.

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The following table outlines the Internal Audit Efficiency and Effectiveness Performance Metrics on a going forward basis:

Performance Measurement Category	Measures of Efficiency	Measures of Effectiveness	Measures of Efficiency and Effectiveness
Service to Stakeholders	<ul style="list-style-type: none"> <li>• Number of internal audit reports issued vs. planned engagements (100% initiation rate, 60% completion rate)</li> <li>• Anonymous Reporting System annual median case closure time (equal to or less than the NAVEX Global median average)</li> <li>• Actual hours vs. budgeted hours, by project (year over year comparison)</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of audit recommendations accepted by management (100% target)</li> <li>• Review of Internal Audit governance structure (annual)</li> <li>• Acknowledgement of organizational independence (annual)</li> <li>• Successfully passing the Institute of Internal Auditors Quality Assurance and Improvement Program External Assessment (every 5 years)</li> </ul>	<ul style="list-style-type: none"> <li>• Client survey scores (positive average result, based on scoring scale)</li> <li>• Corporate management team survey scores (positive average result, based on scoring scale)</li> <li>• FA&amp;A committee survey scores (positive average result, based on scoring scale)</li> </ul>
Technical Development		<ul style="list-style-type: none"> <li>• Number of hours spent in industry or other specialized training (minimum of 40 hours for Certified Internal Auditors and 20 hours for Certified Fraud Examiners)</li> <li>• Percent of auditors involved in professional organizations (100% target).</li> </ul>	
Staff Development	<ul style="list-style-type: none"> <li>• Tracking of development plan (plan vs. actual, on an annual basis)</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of auditors with professional certifications (100% target)</li> </ul>	

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#### Service to Stakeholders:

There are ten metrics under the Service to Stakeholders Performance Measurement category. Three of them are efficiency measures, four are effectiveness measures and three measure both efficiency and effectiveness.

#### ***Number of Internal Audit Reports Issued vs. Planned Engagements (100% Initiation Rate, 60% Completion Rate)***

The Term of Council Internal Audit Risk Based Work Plan for 2015 to 2018 was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

Sources for determining risk and plan priorities included discussions with Senior Management, 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 and significant change initiatives.

Based on current staffing levels, the Risk Based Work Plan will typically include between seven and ten projects a year. As internal auditing is a year round activity, it is to be expected that some projects starting in the latter half of the year will extend into the next calendar year. It is anticipated that three projects will extend into the following year, on an annual basis. However, it is expected that all projects will commence in the year that they are scheduled.

In 2016, all of the ten scheduled engagements were initiated. Seven of them were completed, presented and approved by Council. The remaining three projects were the Social Media Audit, Events Management Audit, and the Construction Audit of Fire Station #7-4. The Social Media Audit was presented to FA&A and approved by Council on March 21, 2017. The Events Management Audit is scheduled to be presented to FA&A on June 6, 2017. The Construction Audit of Fire Station #7-4 will encompass the complete lifecycle of the project. It is anticipated that audit reports will be issued after the completion of the Planning and Design, and Bid and Procurement Phases, Construction Phase and the Close Out Phase. The timing of these reports is dependent on the actual construction project timing.

Internal Audit's role in advisory/consulting engagements is typically reported on by the process owner who engaged the service. In 2016, Internal Audit provided Project Risk Management Training sessions as part of the Corporate Project Management Office's Project Management Training Program. Internal Audit also supported the City Manager's Office by providing risk based consulting services as it relates to the development and implementation of the City's Service Excellence Strategic Initiatives.

Internal Audit also developed the Anonymous Reporting System E-Learning module to increase employee trust, confidence and awareness of the system, and to reinforce the City's commitment to effective governance and accountability. The E-Learning module has been available to staff since November 2016. This is a mandatory course and it is anticipated that all staff will have completed it in 2017.

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#### ***Anonymous Reporting System Annual Median Case Closure Time (Equal to or Less than the NAVEX Global Median Average)***

Since the system was launched, there have been significant year over year improvements in the ability to address reporter's concerns in a timely manner. In 2016, reports were investigated and closed three weeks faster than the Global Benchmark. The ability to investigate and close cases in a timely fashion helps foster a culture where concerns are taken seriously and builds organizational trust in the system. Further information on this topic can be found on page 23 of this report.

#### ***Actual Hours vs. Budgeted Hours, by Project (Year over Year Comparison)***

In 2016, starting with the commencement of the Social Media Audit, Internal Audit implemented a time docketing process that will effectively track engagement hours by project, by activity type. With this new process, Internal Audit will be in a position to report on this metric in next year's annual report.

Budgeted project hours are based on best estimates and reflect historical experience. Risk based Internal Audits require significant client participation to identify risks, agree on issues and develop relevant and feasible management action plans.

#### ***Percentage of Audit Recommendations Accepted by Management (100% Target)***

This metric helps demonstrate the collaborative nature of a risk based internal audit. Internal audit engagements can be deemed successful when management participates in the process, concurs with the observations and recommendations, and is committed to addressing them through management action plans.

In 2016, Internal Audit achieved a 100% acceptance rate for all audit recommendations.

The 2016 annual update on the status of the outstanding management action plans will be presented to FA&A in Q4, 2017. Starting next year, the annual update will be provided in this Annual Report.

#### ***Review of Internal Audit Governance Structure and Acknowledgement of Organizational Independence (Annual)***

Ensuring that the Internal Audit Department is able to perform its duties independently is vital to the effectiveness of the function. Further information on this topic can be found on pages 3 – 7 of this report.

#### ***Successfully Passing the Institute of Internal Auditors Quality Assurance and Improvement Program External Assessment (Every 5 Years)***

Internal Audit conforms to the International Standard for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the IIA, as well as the City's Code of Conduct and the Internal Audit Procedure Manual.

As part of conformance, the Director of Internal Audit is responsible for developing and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity. It is designed to enable an evaluation of the internal audit activity's conformance



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with the IIA Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The quality assurance and improvement program must include both internal and external assessments.

Internal assessments are conducted by the Director of Internal Audit and are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

From a performance, quality and effectiveness perspective, Internal Audit should take the necessary steps to initiate the external assessment process. The first step is to proceed with an internal readiness assessment. Internal Audit will allocate time in the work plan to perform this assessment. After completion of the internal readiness assessment, the next step would be to proceed with an external assessment in the next Term of Council. These timelines will coincide with the five year reporting period under the new Internal Audit structure (i.e. work plan activities encompassing 2014 through 2018).

#### ***Client, Corporate Management and FA&A Committee Survey Scores (Positive Average Result, Based on Scoring Scale)***

Surveys are an important tool that can be used to assess proficiency in certain skills, competencies, or knowledge exhibited by the Internal Audit Department staff.

Starting with the Social Media audit, members of the management team directly involved in the audit process have been asked to complete an Audit Client Survey. The results will help Internal Audit to determine whether the goals and objectives of the audit were met and measure client satisfaction with the quality of services delivered.

Internal Audit will also reintroduce the FA&A Committee member and Corporate Management team annual survey. This survey will either be the same survey developed by IIA or another similar program.

A summary of the 2017 survey results will be published in next year's Internal Audit Department Annual Report.



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#### Technical Development:

There are two effectiveness metrics under the Technical Development Performance Measurement category.

#### ***Number of Hours Spent in Industry or Other Specialized Training (Minimum of 40 Hours for Certified Internal Auditors and 20 hours for Certified Fraud Examiners)***

Currently, Internal Audit staff possess one or more of the following professional certifications:

- Certified Internal Auditor (CIA)
- Certification in Risk Management Assurance (CRMA)
- Certified Fraud Examiner (CFE)
- Chartered Professional Accountant (CPA)

The IIA oversees a number of well-respected auditing certifications including the CIA designation. The CIA designation is the only globally accepted certification for internal auditors and remains the standard by which individuals demonstrate their professionalism in the internal audit field.

The CRMA is designed for internal auditors and risk management professionals with responsibility for and experience in providing risk assurance, governance processes, quality assurance, or control self-assessment. It demonstrates an individual's ability to evaluate the dynamic components that comprise an organization's governance and enterprise risk management program and provide advice and assurance around these issues.

Individuals who have achieved the CIA and/or any other IIA designation are required to complete a minimum of 40 hours of Continuing Professional Education (CPE) every year.

The CFE credential denotes proven expertise in fraud prevention, detection and deterrence. CFEs are trained to identify the warning signs and red flags that indicate evidence of fraud and fraud risk. CFEs around the world help protect the global economy by uncovering fraud and implementing processes to prevent fraud from occurring in the first place. On an annual basis, CFE's must obtain a minimum of 20 credit hours of CPE; at least 10 of these must relate directly to the detection and deterrence of fraud and 2 must relate directly to ethics.

The CPA designation was created by the unification of Canada's three independent legacy accounting professions (CA, CGA and CMA) into the CPA, now Canada's only business and accounting profession. Working in collaboration with its provincial member organizations, the CPA supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs. It also provides a range of member services and professional literature; undertakes research and development of intellectual property; issues guidance on risk management and governance; and fosters relationships with key stakeholders nationally and internationally. CPA and its provincial member organizations mandate is to protect the public interest by setting and enforcing the highest professional and ethical standards, to ensure that members are recognized as Canada's preferred financial leaders and advisors, and to support its members in their efforts to enhance their capabilities.

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CPA's are required to complete a minimum of 20 hours of Continuing Professional Development (CPD) a year. The CIA CPE requirements fulfil the CPA CPD requirements.

#### ***Percent of Auditors Involved in Professional Organizations (100% Target)***

In addition to the professional organizations mentioned above, all members of the City of Vaughan's Internal Audit Department are members of the Municipal Internal Auditors Association (MIAA). The purpose of MIAA is to provide a professional forum for the purposes of networking, continuing education and exchanging ideas and best practices with other municipal internal auditors. MIAA hosts educational events twice a year.

The completion of the yearly CPE requirements and maintaining active membership in the associated professional organizations helps ensure that the City's Internal Audit Department staff remain up to date on the latest municipal, business, auditing, risk management, fraud prevention and detection techniques and trends.

In 2016, all Internal Audit staff met their respective CPE/CPD requirements and all members are in good standing with their respective professional organizations.

#### ***Staff Development:***

There are two metrics under the Staff Development Performance Measurement category. One is an efficiency measures and one is an effectiveness measure.

#### ***Tracking of Development Plan (Plan vs Actual, Annual Basis)***

The Director of Internal Audit is responsible for evaluating staff performance on an annual basis, using the City's existing Talent Management Program. The City's Talent Management System integrates employee goals, competencies, performance feedback, appraisal, and learning and development. It provides integrated and timely information, feedback, communication and reporting.

Through the performance planning and evaluation process, Internal Audit aligns work activities to the Department's Risk Based Work Plan while developing and monitoring individual performance, achievements, competencies and opportunities for development.

#### ***Percent of Auditors with Professional Certifications (100% Target)***

All Internal Audit staff are required to possess at least one certification. Through the City's Talent Management Program, staff are encouraged to continue to explore development opportunities and additional certifications.

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**COMMON THEMES AND ISSUES – ANALYSIS OF 2016 INTERNAL AUDIT REPORTS**

Individual internal audit reports can be useful in advising management and Council on risk and control issues that may affect the successful operation of a program, process or department. Individual reports, however, do not always address broader risk and control themes. Similar issues may arise over a series of reports that could point to a more systemic or reoccurring set of issues requiring a more organizational or holistic perspective of risk and control. Identifying themes and addressing them holistically helps better address systemic causes.

A total of seven Internal Audit reports were presented and approved by Council in 2016. In general, most of the issues raised in the reports were more specific to the department or process reviewed.

However, there are some themes that can be summarized with respect to the outstanding management action plans presented to FA&A on October 31, 2016:

The top themes that emerged are:

1. Leveraging technology to reduce manual processes and information duplication.
2. Capturing data in a manner that will allow the organization to make informed, risk based decisions.
3. Developing a more strategic approach to procuring goods and services.
4. Improving project management, contract administration and management oversight.
5. Updating the content of City policies, procedures and guidelines while providing more clarity on roles, responsibilities and expectations of stakeholders.

Internal Audit will continue to report on reoccurring themes on an annual basis, as per the City's Internal Audit Policy.

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#### **ANONYMOUS REPORTING SYSTEM – ANNUAL UPDATE**

Prior to this year, Internal Audit presented a standalone annual report entitled, “Internal Audit Report – Anonymous Reporting System Annual Report”. The report included a summary of the issues raised, the underlying themes or trends and benchmarking the City’s performance against the NAVEX Global Benchmark. The reporting period was based on an April through March cycle. Last year’s report was presented to FA&A on May 30, 2016.

On a going forward basis, the annual update on the Anonymous Reporting System will be incorporated into this Annual Report. To align the reporting cycle, the City’s usage statistics from 2014 and 2015 have been recalculated using a January through December cycle. As a result, there will be some differences in the historical data presented in this report compared to prior year’s reports.

#### **Anonymous Reporting System E-Learning Module:**

In 2016, Internal Audit developed an Anonymous Reporting System E-Learning module to increase employee trust, confidence and awareness of the system, and to reinforce the City’s commitment to effective governance and accountability. The E-Learning module has been available to staff since November 2016. This is a mandatory course and it is anticipated that all staff will have completed it in 2017.

#### **Background and Purpose:**

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.

The City’s service provider, NAVEX Global, maintains a Global Database of performance metrics based on all the clients they serve. NAVEX issues an annual report that compares data from its participating clients against the industry benchmarks. For their 2016 report, this includes data from 2,382 clients that had a minimum of 10 or more reports. Comparing the City’s anonymous reporting use to the NAVEX Global Database is a good indicator to help gauge the success of the City’s program and opportunities for improvement.

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#### Performance Criteria:

Overall, staff use of the Anonymous Reporting System continues to meet expectations based on the measurement criteria used to benchmark the City's use to the Global Database.

The criteria include:

- Report Volume per 100 Employees
- Report Allegation Categories and Substantiation Rates
- Reporter Follow-up Rate
- Anonymous vs Named Reporters
- Case Closure Time

#### **Report Volume per 100 Employees**

Report volume per 100 employees is a measurement that enables the City to estimate the number of potential reports it will receive in a given year.

The following table compares the City's actual report volume versus the Global Benchmark estimate:

Year	Estimated Reports Based on Benchmark Median	Actual Reports Received
2014	19.5	16
2015	19.5	18
2016	21	12

The Global Database median reports per 100 employees increased slightly from the 2014 and 2015 rate of 1.3 to 1.4, which in turn, increases the number of estimated reports for the year. Based on this statistic and the number of full time employees in the City of Vaughan and Vaughan Public Libraries [approximately 1500], we should have expected 21 reports in 2016.

Given the maturity of the system, the three year trend on reporting volume is a good indicator that the system is being accepted and integrated into the City's overall governance framework. Due to the dynamic nature of a hotline program, it is expected that there may be report volume fluctuations from year to year. Therefore, the year over year drop in reporting activity should not be viewed as a concern.

***Report Allegation Categories and Substantiation Rates***

Allegation category reporting helps identify themes and trends. In addition, comparing the results to those of the Global Database helps determine if the City has different themes that might point to specific issues. Substantiation Rate is a measurement that reflects the rate of allegations made which could be determined to have at least some merit. At the City, all allegations are initially considered to have merit until they have been concluded. During the investigation process, some reporters may not have provided enough information or not responded to questions posed by the investigator. This may shift the allegation to the unsubstantiated category. In addition, if the final conclusion does not support the allegation, then the case is considered unsubstantiated.

Based on the 12 reports received:

- One case (or 8%) related to accounting, auditing and financial reporting issues such as financial misconduct, internal controls and expense reporting. The 2016 Global Database comparison for this category is 2%. This report was not substantiated. The 2016 Global Database substantiation rate for this category is 49%.
- Six cases (or 50%) related to business integrity which included conflict of interest and vendor/customer issues. The 2016 Global Database comparison for this category is 14%. Two (or 33%) of these reports were substantiated. The 2016 Global Database substantiation rate for this category is 43%.
- Three cases (or 25%) related to human resources issues such as hiring irregularities, discrimination, harassment and favouritism. The 2016 Global Database comparison for this category is 72%. One (or 33%) of these reports was substantiated. The 2016 Global Database substantiation rate for this category is 38%.
- None of the reports were related to environmental, health and safety. The 2016 Global Database comparison for this category is 7%. The 2016 Global Database substantiation rate for this category is 45%.
- Two cases (or 17%) related to the misuse or misappropriation of corporate assets including theft and time abuse. The 2016 Global Database comparison for this category is 5%. These reports were not substantiated. The 2016 Global Database substantiation rate for this category is 55%.

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The following table outlines the percentage of reports we received by category, by year:

Category	Vaughan		
	2014	2015	2016
Financial	0%	11%	8%
Business Integrity	6%	22%	50%
HR	50%	61%	25%
Environment, Health and Safety	6%	0%	0%
Asset Misuse / Misappropriation	38%	6%	17%
Total	100%	100%	100%

The following table outlines the Global Benchmark of reports by category, by year:

Category	Benchmark Survey		
	2014	2015	2016
Financial	2%	2%	2%
Business Integrity	17%	15%	14%
HR	69%	71%	72%
Environment, Health and Safety	6%	5%	7%
Asset Misuse / Misappropriation	6%	7%	5%
Total	100%	100%	100%

While the Global Benchmark category reporting percentages have remained fairly consistent, year over year, the City had an increase in the number of Business Integrity related reports and a decrease in Human Resources related reports in 2016. Four of the six Business Integrity reports raised concerns in one particular department. These incidents were thoroughly investigated by Internal Audit. Senior management took these matters seriously and immediately addressed the situation. This included the implementation of business process improvements and organizational changes.

The following table compares the City's report substantiate rate against the Global Benchmark:

City of Vaughan vs Global Benchmark	Substantiation Rates		
	2014	2015	2016
City of Vaughan	31%	28%	25%
Global Benchmark	40%	41%	40%

In 2016, three (or 25%) of the twelve reports received were substantiated. The 2016 Global Database overall substantiation rate comparison is 40%. Our overall substantiate rate since the system was implemented is 28%. The City has a lower substantiation rate than the Global Benchmark but this is not unexpected given that the system is still relatively new. A high substantiation rate is reflective of a more mature system with well-informed staff reporting high-quality cases coupled with an effective investigation process. This will evolve as education and awareness is further built among City staff.



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It should be noted that not all substantiated reports reflect unethical conduct. It may reflect the absence of or non-enforcement of policy/procedure or improper application of a business process. In addition, an unsubstantiated report does not necessarily mean that the report was without merit. For a majority of the unsubstantiated cases, we were unable to substantiate the report due to insufficient details or evidence. An unsubstantiated report can still highlight potential risks and control weaknesses that may need to be addressed.

#### ***Reporter Follow-up Rate***

Another measurement that has a direct impact on Substantiation Rates is the Reporter Follow-up Rate. This rate indicates the percentage of reporters who followed-up on their report submission.

The following table compares the City's reporter follow-up rate against the Global Benchmark:

Year	Benchmark Survey	Vaughan
2014	33%	79%
2015	30%	28%
2016	30%	17%

There continues to be a decline in the number of reporters who followed-up on their report submission. There is a greater risk that cases will be deemed unsubstantiated when reporters do not follow up on their reports, as specific detail that may be required to conduct a thorough investigation may inadvertently be withheld. The need for employees to follow-up on their reports was a significant point of emphasis in the new mandatory e-learning module curriculum. It is expected that this trend will reverse after all employees complete the e-learning module.

#### ***Anonymous vs Named Reporters***

The Anonymous vs Named Reporters rate shows the percentage of all reports submitted by individuals who chose to withhold their identity.

The following table compares the City's anonymous rate against the Global Benchmark:

Year	Benchmark Survey	Vaughan
2014	61%	94%
2015	59%	100%
2016	58%	92%

The trend of reporters choosing to remain anonymous continues. Factors influencing anonymity include the level of trust participants have that their information will remain confidential, the significance of the issue being reported and the confidence that the report will be acted on. The preference for anonymity illustrates that without access to an Anonymous Reporting System, there is increased risk that staff may not report important issues such as code of conduct violations, suspected fraud or misappropriation, privacy issues and inappropriate relationships between employees and contractors/vendors.

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#### ***Case Closure Times***

Case Closure Time is the number of calendar days it takes an organization to complete an investigation and close a case.

The following table compares the City's median case closure times against the Global Benchmark:

<b>Year</b>	<b>Benchmark Survey Median</b>	<b>Vaughan (Median)</b>
2014	39 days	64 days
2015	46 days	41 days
2016	42 days	20.5 days

Since the system was launched, there have been significant year over year improvements in the ability to address reporter's concerns in a timely manner. In 2016, reports were investigated and closed three weeks faster than the Global Benchmark. The ability to investigate and close cases in a timely fashion helps foster a culture where concerns are taken seriously and builds organizational trust in the system.