

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

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Regional Implications

Not applicable.

Conclusion

Internal Audit provides more value when the planning process is flexible and linked to changing risk conditions and resource availability. This enables Internal Audit to focus on the “right controls to manage the right risks”. To support this approach, the plan will continue to focus on both program and service delivery risk, as well as those corporate or enterprise processes that support the delivery of City-wide services.

Attachment

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

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.)

2015 – 2018 INTERNAL AUDIT RISK BASED WORK PLAN – CURRENT STATUS AND REVISIONS

Recommendation

The Director of Internal Audit recommends:

1. That the 2015 - 2018 Internal Audit Risk Based Work Plan – Current Status and Revisions be approved.

Contribution to Sustainability

Internal Audit activities and subsequent reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective 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.

A Risk Based Work Plan focuses priority on audit engagements that can provide the greatest value to the City.

Economic Impact

There are no direct economic impacts associated with this Work Plan.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the 2015 – 2018 Internal Audit Risk Based Work Plan – Current Status and Revisions for approval.

Background - Analysis and Options

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

Internal Audit has a professional responsibility to develop audit plans that focus on risk in the City. In addition, the plan should be dynamic and flexible. Changes to the work plan may be required to reflect emerging risks and issues as they unfold. To accommodate this flexibility, the previously approved plan was revised to recognize Council's approval of the Service Excellence Strategy on September 30, 2015. This will allow Internal Audit to schedule projects based on client availability, priority risks and available resources.

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: Demonstrating Value for Money.

Regional Implications

Not applicable.

Conclusion

Internal Audit provides more value when the planning process is flexible and linked to changing risk conditions and resource availability. This enables Internal Audit to focus on the “right controls to manage the right risks”. To support this approach, the plan will continue to focus on both program and service delivery risk, as well as those corporate or enterprise processes that support the delivery of City-wide services.

Attachment

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

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 Revisions

May 2016

2015 - 2018 Internal Audit Risk Based Work Plan

Current Status and Revisions

BACKGROUND AND PURPOSE

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
- Significant change initiatives

As in the past, Internal Audit will continue to provide a combination of risk and control advice and assurance. Time will continue to be made available to provide risk management training and education if required.

STAFFING AND AVAILABLE HOURS

The plan continues to be based on a staff of three; a Director, an Audit Project Manager and an Internal Audit Coordinator. 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 plan takes into account statutory holidays, vacations, absences, training and various administrative functions. Direct audit time includes work plan audit projects, 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, 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.

2015 - 2018 Internal Audit Risk Based Work Plan

Current Status and Revisions

SUMMARY OF PLAN STATUS AND CHANGES

The Audit Plan was presented and approved by Council in March 2015. In September 2015, a revised Audit Plan was presented and approved by Council as a result of new information and changing circumstances within the organization. As agreed, Internal Audit committed to keep Council up to date on any further significant plan changes.

Council's approval of the Service Excellence Strategy on September 30, 2015 prompted a review of the Audit Plan to ensure the projects were appropriately aligned with the Service Excellence Strategy and any emerging risks as a result of the new strategy were appropriately reflected in the work plan.

As a result of this review, the following changes are recommended to the 2015 to 2018 Internal Audit Risk Based Audit Plan.

Audits/Projects Cancelled or Deferred	New Projects and Initiatives
1. Procurement to Pay Implementation Consulting Project [Cancelled and merged with the New Service Excellence Strategy Consulting project]	1. Service Excellence Strategy Consulting Project [To provide risk advice to management during all phases of the initiatives moving forward as part of Service Excellence Strategy]
2. Vaughan Hospital Special Project [Cancelled, as Mackenzie Health will be responsible for the construction]	2. Social Media [Was part of the original Term of Council Work plan and aligns with the Service Excellence Citizen Experience Strategic Initiatives]
3. Entity-Wide COSO Internal Control Evaluation [Cancelled and merged with the New Service Excellence Strategy Consulting project]	3. Legal Services [Supports several of the Term of Council Priority initiatives]
4. Payroll Process/Systems Audit [Deferred and moved to Off-Plan Project List]	4. Financial Planning & Budgeting Process [Supports several of the Term of Council Priority initiatives]
5. Cash Handling/Petty Cash [Deferred and moved to Off-Plan Project List]	5. VBEC [Management request as a result of organizational restructuring. This audit is currently in progress]

To accommodate these changes, the Payroll Process/Systems audit and the Cash Handling/Petty Cash audit have been deferred and moved to the "Off-Plan Project List". These are projects that could potentially be completed in this Term of Council depending on the availability of resources.

2015 - 2018 Internal Audit Risk Based Work Plan

Current Status and Revisions

CURRENT PLAN UPDATE AND PRELIMINARY SCHEDULE

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>General Internal Audit Follow-up Program</p>	<p>Rationale: As part of the Internal Audit reporting process, Internal Audit and clients agree on action plans to address issues identified in the report. Follow-up is done to determine if the action plans have been implemented.</p> <p>Risk: If action plans are not followed up there is the risk they may not 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>Ongoing</p>
<p>Driver Certification Process [DCP] [MTO Compliance]</p>	<p>Rationale: 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>Risk: 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>2016 – 2018 [Annual Requirement]</p>
<p>Anonymous Reporting System Administration</p>	<p>Rationale: 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>Risk: 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>Ongoing</p>

2015 - 2018 Internal Audit Risk Based Work Plan

Current Status and Revisions

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>Service Excellence Strategy</p> <p>[Consulting]</p>	<p>Rationale: 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>Risk: 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>VBEC</p>	<p>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.</p> <p>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.</p>	<p>In Progress</p>
<p>Event Management</p>	<p>Rationale: 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>Risk: 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>2016</p>

2015 - 2018 Internal Audit Risk Based Work Plan

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
Construction/Capital Projects	<p>Rationale: Individual Capital Projects can represent a significant investment for the City. Large projects are managed from a variety of aspects including financial, timeliness and meeting deliverables. Audits of individual projects can provide assurance that risks are properly managed.</p> <p>Risk: If projects are not properly managed the greatest risk is they do not meet their deliverables either by not being on time or on budget. Projects that are late or over budget can lead to financial loss, quality reduction and erosion of public trust.</p>	2016
Social Media	<p>Rationale: 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>Risk: 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>	2016
Legal Services	<p>Rationale: 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>Risk: 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>	2017

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>P-Card Compliance Review</p>	<p>Rationale: 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>Risk: 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>	<p>2017</p>
<p>Financial Planning & Budgeting Process</p>	<p>Rationale: Having an effective financial planning and budgeting process in place is necessary in order to achieve organizational goals in the shortest time possible with a minimum of resources and funding. Creating a Financial Master Plan to ensure sustainable fiscal policies and management of assets is a part of the Service Excellence Strategy.</p> <p>Risk: An ineffective financial planning & budgeting process may pose several significant short and long term risks to the City and may impact decision making as it relates to service levels, priorities and funding allocations.</p>	<p>2017</p>
<p>Forestry Operations</p>	<p>Rationale: 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>Risk: 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>2017</p>

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>Governance and Accountability - Follow-Up Survey</p>	<p>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 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>Risk: 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>Facility Maintenance Services</p>	<p>Rationale: 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>Risk: 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>Corporate Security</p>	<p>Rationale: 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>Risk: 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>

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
Consulting and Professional Services	<p>Rationale: 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>Risk: 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>	2018
Fire Department Administration	<p>Rationale: 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>Risk: If administrative services do not properly support fire operations there is the risk of non-compliance with legislation and possible unnecessary spending.</p>	2018
Water/Wastewater	<p>Rationale: 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>Risk: 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>	2018

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>Ethics/Code of Conduct Review</p> <p>[Consulting]</p>	<p>Rationale: 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>Risk: 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>Fraud Risk Assessment and Education</p> <p>[Consulting / Policy Support]</p>	<p>Rationale: 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>Risk: Absence of a Policy, education or a proper assessment could result in any aspect of fraud not being properly mitigated.</p>	<p>2018</p> <p>[Some Advisory Work Completed in 2015]</p>
<p>Payroll Process/Systems Audit</p>	<p>Rationale: Payroll represents approximately 55% of all City operating expenditures. Although records relating to Payroll such as employee master files and compensation rates are the responsibility of Human Resources, the actual processing is done offsite using a third party [Powerstream]. A transaction audit was done in 2012. This audit will focus on the entire process.</p> <p>Risk: A well designed and effectively controlled payroll system protects a major portion of the City's expenditures. Inaccurate and/or late payroll processing can result in financial loss and affect staff morale. In addition, there could be labour relations issues and non-compliance with employment legislation.</p>	<p>Moved to Off-Plan Project List</p>

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Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Scheduled Start Date
<p>Cash Handling/Petty Cash</p>	<p>Rationale: Although relatively small from a monetary perspective, cash related issues continue to draw high public and media attention. The stewardship of public funds is of high interest for the City. The City has a number of petty cash funds and has numerous cash handling facilities across the City.</p> <p>Risk: The risk of inappropriate cash handling procedures affects the public perception of government behaviour. Negative publicity causes public dissatisfaction and erodes citizen trust and confidence.</p>	<p>Moved to Off-Plan Project List</p>
<p>Entity-Wide Internal Control Evaluation [COSO]</p>	<p>Rationale: Internal Control is a process that exists primarily to provide reasonable assurance that the City achieves its operational, reporting and compliance objectives. For the City, it is important that the right controls mitigate the right risks. The COSO model is a globally recognized model that helps evaluate the overall control environment within an organization.</p> <p>Risk: Not having the right controls to mitigate the right risks negatively impacts the effective and efficient achievement of the City's objectives.</p>	<p>Cancelled</p>
<p>Vaughan Hospital [Special Project]</p>	<p>Rationale: The Vaughan Hospital is one of the most important initiatives for the City during this term of Council. A large contributing factor to the success of this project will be the ability to monitor and manage risk as the project unfolds. Internal Audit can assist in the assessment of risk and provide assurance that it is being effectively mitigated.</p>	<p>Cancelled</p>
<p>Procurement to Pay Implementation Project [Consulting]</p>	<p>Rationale: In 2014, Internal Audit participated in a project to review the organizational procurement to pay processes. The purpose was to identify process and control improvements and make recommendations for improvement. Internal audit plans to provide advice during the implementation phase of the project.</p> <p>Risk: If the project is not implemented and/or Internal Audit does not participate there is the risk that the right controls may not be present in the process. This could result in purchasing inefficiencies or ineffectiveness leading to increased costs and non-compliance with purchasing policy/agreements.</p>	<p>Cancelled</p>

2015 - 2018 Internal Audit Risk Based Work Plan

Current Status and Revisions

OFF PLAN PROJECT LIST

The attached table highlights the following:

- The list of “Off Plan Hours” or those projects that cannot be done during this Term of Council unless additional resources become available.
- The “Standby Priority” is 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.

	<i>Off Plan Hours</i>	<i>Standby Priority</i>	<i>Audit Risk</i>
Projects			
Off Plan Projects			
Building Inspection Process Review	840	1	Medium/High
Payroll Process/Systems Audit	630	2	Medium
ByLaw/Compliance	840	3	Medium
Fleet Management	840	4	Medium
Planning Development Process Review	840	5	Medium
Accounts Payable/Expenditure Management	630	6	Medium
Cash Handling/Petty Cash	420	7	Medium
Water/Wastewater Billing	840	8	Medium
Human Resources	840	9	Medium
Vaughan Public Libraries	840	10	Medium
Cash Management and Investments	630	11	Medium
Licensing and Permits	840	12	Medium
Emergency Management/Business Recovery Planning	630	13	Medium
Reserve Management/Monitoring	630	14	Medium/Low
Accounts Receivable/Collections	420	15	Medium
Taxation Revenue	630	16	Low/Medium