

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013**

Item 2, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on June 25, 2013.

#### **2            2012-2014 INTERNAL AUDIT RISK BASED WORK PLAN – CURRENT STATUS                  AND REVISIONS**

The Finance and Administration Committee recommends:

- 1)        That the recommendation contained in the following report of the Director of Internal Audit, dated June 10, 2013, be approved; and
- 2)        That Communication C3, Presentation Material, entitled, *“Internal Audit Risk Based Work Plan Current Status and Revisions”*, be received.

#### **Recommendation**

The Director of Internal Audit recommends that the 2012-2014 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 and Administration Committee 2012-2014 Internal Audit Risk Based Work Plan – Current Status and Revisions for approval.

#### **Background - Analysis and Options**

The 2012-2014 Internal Audit Risk Based Work Plan was developed based on a combination of factors including using an audit risk ranking tool, reviewing the tool and the results with senior management and analyzing emerging risks prevalent in the public sector.

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 a combination of a changing risk profile and the need to do more city-wide or enterprise audits. The plan continues to be based on more projects than can be done with current staff and resources. This will allow Internal Audit to schedule projects based on client availability and priority risks. As of the end of April 2013, four audit projects have been

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013**

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completed. It is expected that with current resources, a total of ten to twelve audit projects or engagements will be completed by the end of 2014.

Internal Audit will keep the Finance and Administration Committee updated should further changes to the plan be required.

**Relationship to Vaughan Vision 2020/Strategic Plan**

This 2012-2014 Internal Audit Risk Based Work Plan – Current Status and Revisions is consistent with the priorities previously set by Council and the resources have been allocated and approved.

**Regional Implications**

Not applicable.

**Conclusion**

Internal Audit provides more value when the planning processes are flexible and linked to changing risk conditions. 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**

2012-2014 Internal Audit Risk Based Work Plan – Current Status and Revisions

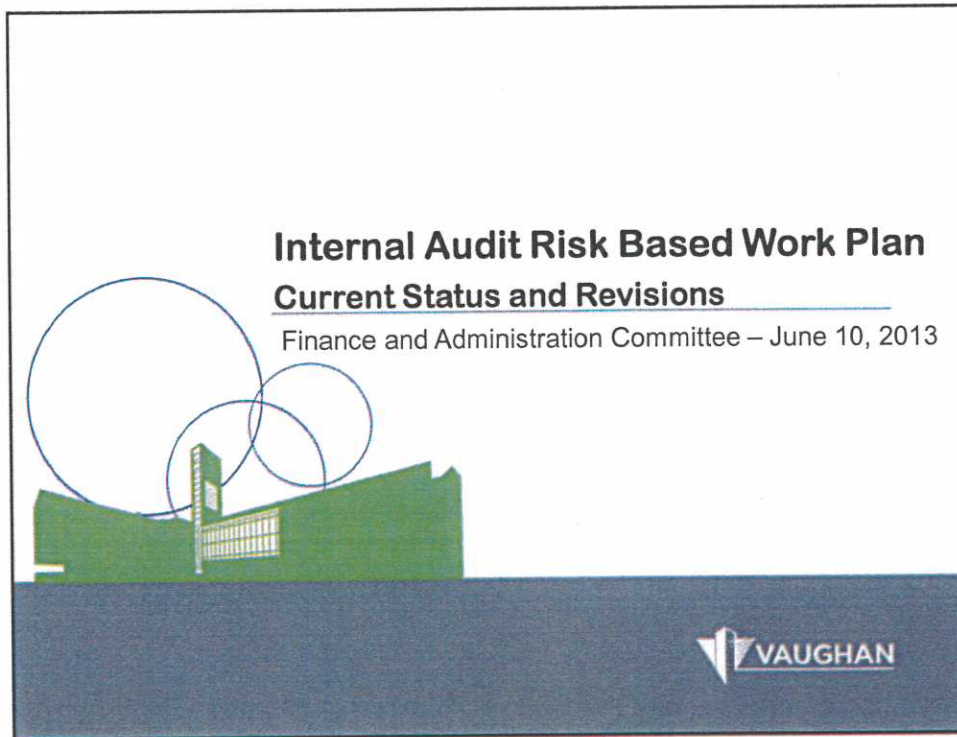
**Report prepared by:**

Paul Wallis CMA, CIA, CISA  
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.)

C3  
F&A  
June 10/13  
Item 2

6/7/2013



## Objectives and Purpose

- Provide an Update on Work Completed Since October 2012 – Current Status
- Report on Proposed Changes to the 2012-2014 Internal Audit Risk Based Work Plan
- Seek Finance and Administration Committee Approval for the Suggested Changes



## **FINANCE AND ADMINISTRATION COMMITTEE – JUNE 10, 2013**

### **2012-2014 INTERNAL AUDIT RISK BASED WORK PLAN – CURRENT STATUS AND REVISIONS**

#### **Recommendation**

The Director of Internal Audit recommends that the 2012-2014 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**

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Internal Audit will keep the Finance and Administration Committee updated should further changes to the plan be required.

### **Relationship to Vaughan Vision 2020/Strategic Plan**

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### **Regional Implications**

Not applicable.

### **Conclusion**

Internal Audit provides more value when the planning processes are flexible and linked to changing risk conditions. 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**

2012-2014 Internal Audit Risk Based Work Plan – Current Status and Revisions

### **Report prepared by:**

Paul Wallis CMA, CIA, CISA  
Director, Internal Audit

Respectfully submitted,

Paul Wallis CMA, CIA, CISA  
Director, Internal Audit



# INTERNAL AUDIT

## **2012 - 2014 Internal Audit Risk Based Work Plan - Current Status and Revisions**

**April 2013**

## **2012 - 2014 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

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#### **BACKGROUND AND PURPOSE**

The Internal Audit Risk Based Work Plan for 2012 to 2014 was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria. The initial plan was approved by the Finance and Administration Committee on October 15, 2012 with the provision that revisions to the Plan may be required to reflect changing circumstance and emerging risk.

Subsequent to the Plan's approval, more information about City operations has necessitated a review of the Plan to better align the value of internal audit and changing risk profile. The purpose of this report is to provide a status report on the current plan and recommend changes to the Plan that will better serve the needs of the City.

As Internal Audit evolves in the City, the emphasis will continue to provide a combination of risk and control advice and assurance. The revisions to the plan reflect changes that recognize a more city-wide or enterprise focus to some projects. In addition, more time will be made available to provide risk management training and education. This reflects the Vaughan Vision 2020 Strategic Initiative to develop an integrated risk management strategy and the time Internal Audit will require supporting this initiative.

#### **STAFFING AND AVAILABLE HOURS**

The plan continues to be based on a staff of two; a Director and an Operational and Compliance Auditor. Additional staff may be required if the risk profile changes significantly or if there is a demand for more audit service.

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 development of an Internal Audit Methodology and audit planning.

#### **SUMMARY OF PLAN STATUS AND CHANGES**

Since October 15, 2012, Internal Audit has:

- Completed four full scope audit projects
- Developed and delivered three Risk Management training/awareness sessions
- Reviewed the new Procurement and Consolidated Reserve Policies.
- Identified Common Themes and Issues as a result of prior year's audit reports.

## **2012 - 2014 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

As a result of the work completed the following changes are recommended to the 2012 to 2014 Internal Audit Risk Based Work Plan:

<b>Audits Deferred or Cancelled</b>	<b>New Projects and Initiatives</b>
1. Purchasing (Split into Two Projects)	1. P-Card Implementation 2. City-Wide Purchase Payment/Processes
2. Fire and Rescue Services (Deferred)	3. Contract Administration
3. Winter Control (Replaced)	4. Water, Wastewater and Drainage (Completed)
4. Building Standards (Deferred)	5. Risk Management Awareness and Training
5. Recreation (Replaced)	6. City-Wide User Fee and Cash Receipts Review
6. Property Tax (Deferred)	7. Anonymous Reporting – Background Study
7. Policy Planning/Urban Design (Cancelled)	
8. Emergency Management and Business Recovery (Deferred)	

The net effect of the changes is that there is a net loss of one project, however, the replacement projects are of larger scope and cover more of the organizational processes.



## 2012 - 2014 Internal Audit Risk Based Work Plan

### Current Status and Revisions

#### CURRENT PLAN RECONCILIATION

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Current Status/Disposition
<b>Payroll</b>	<p><b>Rationale:</b> Payroll represents 57% of all City 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.</p> <p><b>Risk:</b> 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>	<b>Completed</b>
<b>Accounts Payable</b>	<p><b>Rationale:</b> Accounts Payable processes all payments for goods and services provided to the City. These payments need to be processed accurately, on time and in accordance with the City's policies and procedures.</p> <p><b>Risk:</b> If payments are not processed accurately and on time, the resulting impact could result in financial loss to the City, as well as, poor vendor relations.</p>	<b>Completed</b>
<b>Purchasing</b>	<p><b>Rationale:</b> Purchasing has a responsibility to help service the City of Vaughan in the procurement of goods, services and construction in a timely and cost effective manner. Procurement and purchasing represent high public exposure in the public sector. This was a common theme identified from prior year's audit reports.</p> <p><b>Risk:</b> If effective and efficient purchasing practices are not in place the City could face public exposure or reputational risk leading to citizen and vendor dissatisfaction. Conversely, if practices are too risk averse, inefficient processes could result in goods and services not being purchased when needed. In addition, the number of available vendors could be reduced if processes are considered too bureaucratic.</p>	<p><b>To Be Split into Two Projects</b></p> <ol style="list-style-type: none"><li><b>1. Review of P-Card Implementation and Pilot Project (Start 2013)</b></li><li><b>2. Review of City-wide Purchase/Payment Processes. (Start 2013)</b></li></ol>

## **2012 - 2014 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Current Status/Disposition</b>
<b>Fire and Rescue Services</b>	<p><b>Rationale:</b> Fire and Rescue Services represents over 25% of the City's total staff and is the largest expenditure at \$37M. In addition, these services have high citizen focus and public visibility.</p> <p><b>Risk:</b> If services are not delivered up to public expectation the City could face adverse public exposure. In addition, citizen health and safety, as well as, increased property damage could be an issue.</p>	<b>Deferred to 2015</b>
<b>Building and Facilities</b>	<p><b>Rationale:</b> The City's building 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.</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>	<b>To Start in 2014</b>
<b>Road Maintenance</b>	<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>	<b>To Start in 2014</b>
<b>Winter Control</b>	<p><b>Rationale:</b> The City has a responsibility to maintain safe roads and sidewalks under winter conditions. This has a high citizen focus and 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>	<p><b>Project Cancelled.</b></p> <p><b>Replaced by Water, Wastewater and Drainage – Management Request</b></p> <p><b>Completed</b></p>

## **2012 - 2014 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Current Status/Disposition</b>
<b>Building Standards</b>	<p><b>Rationale:</b> The Building Standards department is responsible for ensuring reasonable compliance with the health and safety requirements of the Ontario Building Code and other associated legislation and regulation.</p> <p><b>Risk:</b> Non-compliance with legislation or regulation could result in penalties and fines. In addition, non-compliance could negatively citizen safety resulting potential injury and reputational damage.</p>	<b>Deferred to 2015</b>
<b>Recreation</b>	<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>	<b>To be Replaced with City-Wide User Fee and Cash Receipt Review. Scope will include Recreation User Fees (Start 2013)</b>
<b>Property Tax</b>	<p><b>Rationale:</b> Tax revenue funds 65% of the City's budget and is one of the highest areas of citizen focus in the City. AS the prime source of revenue, the department has the responsibility that taxes are collected completely and on time and in compliance with property assessment standards under multiple provincial statutes.</p> <p><b>Risk:</b> If taxes are not collected accurately or completely, the result could affect the financial sustainability of the City. As there is significant citizen focus, customer service and relationship management are a critical component of managing public exposure and reputational risk.</p>	<b>Deferred to 2015</b>
<b>Policy Planning/Urban Design</b>	<p><b>Rationale:</b> Policy Planning/Urban Design has a significant number of strategic initiatives supporting Vaughan's overall strategic vision. City planning has a high citizen focus and required compliance to the Province's Planning Act.</p> <p><b>Risk:</b> Rapid city growth and increased focus on how that growth is planned represents some risk in how the Vaughan 2020 vision will be achieved. Not meeting the vision has public exposure risk. The number of strategic initiatives puts pressure on existing staff which could lead to increased employee dissatisfaction contributing to not being able to support the Vision.</p>	<b>Cancelled</b>

## 2012 - 2014 Internal Audit Risk Based Work Plan

### Current Status and Revisions

Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)	Current Status/Disposition
<b>Management Governance/ Accountability Framework</b>	<p><b>Rationale:</b> Good governance and a well-defined accountability structure are the foundation of effective organizational control and risk management. This structure sets the tone and influences the culture of the City. It has a pervasive influence on the way business activities are structured.</p> <p><b>Risk:</b> Gaps in the governance and accountability structure can have significant impact on the City meeting its Vision and business objectives. Financial, reputational and compliance risks are usually rooted in the governance and accountability structure. Doing a gap analysis in this area helps focus on issues before they have the opportunity to become more serious.</p>	<b>Completed</b>
<b>Fraud Risk Assessment and Awareness</b>	<p><b>Rationale:</b> Occupational fraud continues to be a global issue affecting many businesses and governments. Because fraud is usually an act of concealment, detection is difficult and its overall impact hard to quantify. A risk assessment or gap analysis will provide information on how well fraud risk is being managed.</p> <p><b>Risk:</b> It is estimated a typical organization loses an estimated 5% of its annual revenues to occupational fraud. Proactive, educational initiatives are the best defence. Fraud leads to financial loss, impacts employee morale and creates negative publicity.</p>	<b>Education Awareness Sessions to be Planned and Implemented for 2014</b>
<b>Business Expenses</b>	<p><b>Rationale:</b> Although relatively small from a monetary perspective, business expense reporting continues to draw high public and media attention. The stewardship of public funds is of high interest for the City.</p> <p><b>Risk:</b> The risk of inappropriate spending affects the public perception of government behaviour. Negative publicity causes public dissatisfaction and erodes citizen trust and confidence.</p>	<b>To Start 2013</b>
<b>Emergency Management/ Business Recovery</b>	<p><b>Rationale:</b> An effective emergency procedures and business continuity plan will enable the City to resume normal service within a predefined time in case of an emergency or significant operations outage (loss of building, network, technology, people)</p> <p><b>Risk:</b> Not having a fully tested and documented emergency/business recovery plan could result in a serious public exposure risk or, to the most extreme, injury and/or loss of life.</p>	<b>Deferred to 2015</b>

## **2012 - 2014 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Current Status/Disposition</b>
<b>User Fees and Cash Receipts</b>	<p><b>Rationale:</b> User fees and service charges contribute over \$37 million of revenue to the City annually. Most of the revenue comes from recreation fees, licenses and permits. Evaluating procedures and processes will serve to provide assurance that all fees are reasonably being collected. This was a common theme identified in prior audit reports</p> <p><b>Risk:</b> If fees and service charges are not collected accurately or completely, the result could affect the financial outcome of the City leading to financial or reputational exposure.</p>	<b>New Project To Start 2014</b>
<b>Contract Administration</b>	<p><b>Rationale:</b> As the City continues to grow and work expands, additional resources are needed to provide services. Contracted services are used to either backfill for extra work or perform work where additional skills are needed. Contracts services represent a significant expenditure to the City.</p> <p><b>Risk:</b> Not having effective contract administration controls can result in work not meeting expectations at increased costs.</p>	<b>New Project To Start 2013</b>
<b>Anonymous Reporting Background Study</b>	<p><b>Rationale:</b> As a result of the Corporate Governance and Accountability review, it was recommended that internal audit be tasked with doing research into anonymous reporting mechanisms that would best suit the needs of the City.</p> <p><b>Risk:</b> The risk of not having an anonymous reporting mechanism is that staff may not be forthcoming in communicating bad news or wrongdoing which could lead to increased operational/reputational risk.</p>	<b>New Project To Start 2013</b>
<b>Risk Management Awareness and Training</b>	<p><b>Rationale:</b> An effective integrated risk management strategy helps the City prioritize and manage the risks that could prevent meeting business objectives. Effective risk management supports informed decision making and staff empowerment. Internal audit is supporting the Strategic Initiative "Develop an Integrated Risk Management Strategy"</p> <p><b>Risk:</b> Not having a well-planned and implemented risk management strategy could result in "managing the wrong risks" and not taking advantage of potential opportunities. This could impact the organization in meeting its business objectives.</p>	<b>Ongoing 2013 and 2014</b>