

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 16, 2015**

Item 5, Report No. 11, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on September 16, 2015.

#### **5      2015 - 2018 INTERNAL AUDIT RISK BASED WORK PLAN – CURRENT STATUS AND          REVISIONS**

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Director of Internal Audit, dated September 8, 2015:

##### **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 a combination of funding adjustments and changing conditions in City. This will allow Internal Audit to schedule projects based on client availability, priority risks and available resources

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

This report supports the strategic goal of management excellence through financial stability and effective governance.

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 16, 2015**

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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:**

Paul Wallis CPA, CMA CIA CISA 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**

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**Report prepared by:**

Paul Wallis CPA,CMA CIA CISA CRMA  
Director, Internal Audit

Respectfully submitted,

Paul Wallis CPA,CMA CIA CISA CRMA  
Director, Internal Audit



# INTERNAL AUDIT

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

**September 2015**

## **2015 - 2018 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

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#### **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.

## **2015 - 2018 Internal Audit Risk Based Work Plan**

### **Current Status and Revisions**

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.

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

The Audit Plan was presented and approved by Council in March 2015. As agreed, Internal Audit committed to keep Council up to date on significant plan changes.

As a result of new information and changing circumstances, the following changes are recommended to the 2015 to 2018 Internal Audit Risk Based Audit Plan.

<b>Audits or Projects Cancelled</b>	<b>New Projects and Initiatives</b>
1. Social Media – Policies and Monitoring [Outsource Funding not Available – Budget Reductions]	1. Corporate Security [Previously a Standby Project – Scheduled for 2018]
2. Mobile Computing/Internet Services [Outsource Funding not Available – Budget Reductions]	2. Information Technology General Controls Review [Now In-house Project – To be Completed in 2015]
3. Council Expense Policy Review [Now being Reviewed by Budget Task Force]	3. Audit of Hiring Practices [Completed]
4. Risk Management Training and Awareness [Low Attendance]	
5. Policy Process Review – Corporate Policy Development [Merged with Entity-Wide Internal Control Review – COSO]	

## 2015 - 2018 Internal Audit Risk Based Work Plan

### Current Status and Revisions

#### CURRENT PLAN UPDATE AND PRELIMINARY SCHEDULE

<b>Audit Project</b>	<b>Rationale and Risks (Why are we doing this Audit/Project?)</b>	<b>Scheduled Start Date</b>
<b>Parks and Forestry Operations</b>	<p><b>Rationale:</b> Maintaining parks and city trees is a significant part of meeting Vaughan's Vision 20/20 by promoting community health and environmental sustainability. The City budgets approximately \$14M annually in providing this service.</p> <p><b>Risk:</b> If parks and 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>2016</b></p> <p><b>[Some Advisory Work Completed in 2015]</b></p>
<b>Payroll Process/Systems Audit</b>	<p><b>Rationale:</b> 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><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>	<p><b>2017</b></p>
<b>Social Media – Policies and Monitoring</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 and has significantly grown 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. Misuse of social media can result in data privacy issues, reputational damage to the City, increased risk of viruses, erosion of trust and possible links to cyber-attacks.</p>	<p><b>Cancelled</b></p>



## **2015 - 2018 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>Scheduled Start Date</b>
<b>Mobile Computing/Internet Services</b>	<p><b>Rationale:</b> Use of mobile computing devices continues to grow in the City of Vaughan. While once blackberries were the main source of mobile computing, this has expanded to tablets and other smartphones. This makes access to information easier from anywhere at any time.</p> <p><b>Risk:</b> Business risks include higher levels of loss or theft of sensitive information, unauthorized access to information and applications, loss of control over sensitive business information and theft of devices. Any one of these risks can affect the reputation of the City.</p>	<b>Cancelled</b>
<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>	<b>In Progress</b> <b>[To Be Completed in 2015]</b>
<b>Event Management</b>	<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 an effective administration and stewardship controls can result in financial loss and negative public perception.</p>	<b>2016</b>
<b>Service/Consulting Contract Management</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. Contracted 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 while not meet objectives.</p>	<b>2016</b>

## **2015 - 2018 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>Scheduled Start Date</b>
<b>Fire Department Administration</b>	<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>	<b>2015</b>
<b>Timekeeping and Overtime</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>	<b>In Progress</b> <b>[To be Completed in 2015]</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>2016</b>
<b>Construction/Capital Projects</b>	<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>	<b>2016</b>

## **2015 - 2018 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>Scheduled Start Date</b>
<b>Water/Wastewater Follow-up</b>	<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 will be done to determine if processes have been improved.</p>	<b>2018</b>
<b>Building and Facilities Follow-up</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 a follow-up 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>	<b>2018</b>
<b>Cash Handling/Petty Cash</b>	<p><b>Rationale:</b> 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><b>Risk:</b> 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>	<b>2017</b>

## **2015 - 2018 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>Scheduled Start Date</b>
<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 implemented. Risk and control exposures could be still be outstanding that could have a negative impact on the City. There is also the risk that initial action plans may not have been suitable. Internal audit can work with clients to develop more suitable plans if follow-up is done.</p>	<b>Ongoing</b>
<b>Risk Management Training and Awareness</b>  <b>[Education/Advisory]</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>Cancelled</b>
<b>Ethics/Code of Conduct Review</b>  <b>[Education/Advisory]</b>	<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>	<b>2018</b>

## 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
<b>Fraud Risk Assessment and Education</b>  <b>[Policy Support]</b>  <b>[Education/Advisory]</b>	<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><b>2016</b></p>
<b>Entity-Wide Internal Control Evaluation [COSO]</b>  <b>[Education/Advisory]</b>	<p><b>Rationale:</b> 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><b>Risk:</b> Not having the right controls to mitigate the right risks negatively impacts the effective and efficient achievement of the City's objectives.</p>	<p><b>In Progress</b>   <b>[To be Completed in Early 2016]</b></p>
<b>Governance and Accountability - Follow-Up Survey</b>  <b>[Education/Advisory]</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 was originally done in 2013 and will be redone in 2015 to track any changes and further develop trending information.</p> <p>Information from the survey will also be used to populate the COSO control information.</p> <p><b>Risk:</b> The absence of good governance and accountability can affect the credibility and reputation of the City.</p>	<p><b>Completed in 2015</b>   <b>[Next Scheduled Date – 2017]</b></p>

## **2015 - 2018 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>Scheduled Start Date</b>
<b>Council Expense Policy Review</b>  [Education/Advisory]	<p><b>Rationale:</b> In 2011, a Council Expense Policy was developed by Internal Audit and adopted by Council. The Policy is very detailed [32 pages] and requires a lot of staff support to properly interpret and apply in certain situations. The Policy is due to be revisited.</p> <p><b>Risk:</b> If Policies are too prescriptive or difficult to interpret, the risk is that processes become too bureaucratic resulting in inefficiencies and absence of flexibility.</p>	<b>Cancelled</b>
<b>Policy Process Review – Corporate Policy Development</b>  [Education/Advisory]	<p><b>Rationale:</b> Corporate Policies are an important part of the City's governance framework. Properly developed, communicated and monitored they help the City meet its objectives while promoting good governance.</p> <p><b>Risk:</b> If there is not an overall effective Corporate Policy process, there is the increased risk that Policies may be overlooked or become irrelevant or missing leading to non-compliance with key goals and objectives.</p>	<b>Cancelled</b>  [Merged with Entity – Wide Internal Control Review]
<b>Procurement to Pay Implementation Project</b>  [Education/Advisory]	<p><b>Rationale:</b> 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><b>Risk:</b> 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>	<b>Ongoing</b>

## **2015 - 2018 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>Scheduled Start Date</b>
<b>Driver Certification Process [DCP]</b> <b>[MTO Compliance]</b> <b>[Special Project]</b>	<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<sup>nd</sup>, 2014 all participating organizations are required to arrange for an independent, comprehensive audit using an audit program and reporting form prepared by the Ministry. Internal Audit received approval from the MTO to do the audit and, going forward, will perform all DCP related audit work.</p> <p><b>Risk:</b> The risk of not doing the audit is non-compliance with Ontario Legislation. This in turn may result in being removed from the program and incurring additional costs and time being retested by MTO before drivers' licenses can be renewed.</p>	<b>2016 – 2018</b> <b>[Annual Requirement]</b>
<b>Vaughan Hospital</b> <b>[Special Project]</b>	<p><b>Rationale:</b> 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><b>Risk:</b> TBD</p>	<b>2018</b>
<b>Anonymous Reporting System Administration</b> <b>[Special Project]</b>	<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>	<b>Ongoing</b>