

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 30, 2012**

Item 5, Report No. 10, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on October 30, 2012.

**5**

#### **INTERNAL AUDIT RISK BASED AUDIT PLAN**

**The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Director of Internal Audit, dated October 15, 2012:**

##### **Recommendation**

The Director of Internal Audit recommends that the 2012-2014 Internal Audit Risk Based Work Plan 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 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 attached plan provides for 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. It is expected that with current resources, 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.

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 30, 2012**

Item 5, Finance Report No. 10 – Page 2

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

This 2012-2014 Risk Based Work Plan 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 linked to risk and clients have an opportunity to provide input. This enables Internal Audit to focus on the “right controls to manage the right risks”. To support this approach, the plan will 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. 2012-2014 Internal Audit Risk Based Audit Plan
2. Audit Planning Framework

**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.)

**INTERNAL AUDIT RISK BASED AUDIT PLAN**

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### **Attachment**

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Paul Wallis CMA, CIA, CISA  
Director, Internal Audit

Respectfully submitted,

Paul Wallis CMA, CIA, CISA  
Director, Internal Audit



# Internal Audit Risk Based Work Plan

2012 - 2014

October 2012

## Internal Audit Risk Based Audit Plan 2012 - 2014

### DEVELOPING THE AUDIT PLAN

The Internal Audit Risk Based Work Plan for 2012 to 2014 was developed using the following three steps.

1. Audit Risk Factors were developed to rank the relative risks of the City's key programs, services and processes (see below).

Risk Factor	Description
<ul style="list-style-type: none"><li>• Size of Program, Service or Process</li></ul>	Based on the 2013/2016 planned budget expenditures planning documentation.
<ul style="list-style-type: none"><li>• Financial/Transaction Exposure</li></ul>	A measure of the potential exposure related to the potential loss or embarrassment due to the nature of cash or the materiality related to transaction processing (i.e. Accounts Payable, Payroll and Purchasing).
<ul style="list-style-type: none"><li>• Public/Reputational Exposure</li></ul>	A measure of exposure to loss or embarrassment caused by the level of visibility including public and media visibility. Also considers past situations, issues in other municipalities or cities (Benchmarking).
<ul style="list-style-type: none"><li>• Citizen Focus</li></ul>	A measure of public interest or importance in a program, service or process as indicated in a citizen survey or independent poll.
<ul style="list-style-type: none"><li>• Strategic Initiative Prioritization</li></ul>	A measure of the strategic initiatives based on priority and linked to Vaughan Vision 2020.
<ul style="list-style-type: none"><li>• Legal/Regulatory Requirements</li></ul>	Exposure, loss or regulatory sanction due to non-compliance with federal, provincial legislation and regulation and/or municipal by-laws.
<ul style="list-style-type: none"><li>• Significant Changes in Operations, Processes, Personnel, or Technology</li></ul>	The exposure resulting from the degree or pace of organizational change including new technology, new management and staff or process/program evaluation.
<ul style="list-style-type: none"><li>• Last Audit Coverage</li></ul>	Increased exposure based on when the program, service or process was last audited.

## Internal Audit Risk Based Audit Plan 2012 - 2014

2. The risk factors and rankings were reviewed with the City Manager, Commissioners and Directors. Their input was considered in the risk rankings.
3. Emerging issues were identified. These include issues in the spotlight at federal, provincial and other municipal jurisdictions. Also included are public sector governance issues such as risk management, values and ethics and fraud awareness.

Based on current staffing, Internal Audit has the capability to do ten to twelve audit projects or engagements covering the period ending 2014. This includes projects already either started or completed in 2012.

The 2012 - 2014 audit plan provides room for:

- Special requests or investigations that may be required from Council or the City Manager.
- Participation in projects or other advisory work as required by City senior management.
- Education or Training Sessions that may be requested from Council or senior management.

The detailed audit plan for 2012 - 2014 and the supporting rationale is highlighted in **Attachment 1**.

### **AUDIT PLANNING FRAMEWORK (ATTACHMENT 2)**

Effective audit planning requires a broader view of the organization. For example, the City of Vaughan provides a variety of programs and services to its citizens. Water, waste collection, transportation and recreation are a few of the many services provided. Supporting the delivery of these programs and services are business processes and functions. Governance and accountability mechanisms, in turn, oversee all aspects of the City's business.

**Attachment 2** illustrates the relationship among the common business services, governance and accountability processes and program service delivery within the Audit Planning Framework. Audit coverage throughout the various levels provides a broader approach to effective auditing in the City.

An overview of the Audit Planning Framework is as follows:

- The bottom two sections of the Framework covers the "Management Governance/ Accountability Framework" or Governance structure and the common business processes for the City of Vaughan. This structure and associated processes support all the cities activities and represent an enterprise focus of the business. For example, all departments need financial, human resources, information technology and other corporate support while delivering their programs and services to the public. This is all done under the umbrella of the City's values, strategic planning (City priorities), accountability mechanisms and risk management. Each commission and department has accountability for all of these but policy is usually the responsibility of senior management and internal service providers.

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

- The top section of the Framework represents the City's external service delivery departments and programs. These departments can either deliver the programs and services using either city staff or alternative service delivery mechanisms such as contractors to deliver community based programs. These are programs and services that directly serve or impact the community.

### **STAFFING AND AVAILABLE HOURS**

The plan is 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.



# Internal Audit Risk Based Audit Plan 2012 - 2014

## ATTACHMENT 1

### AUDIT PLAN DETAIL

Commission and Department	Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)
Corporate and Strategic Services  Human Resources Management	Payroll  (Currently in Progress)	<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>
Finance  Financial Management	Accounts Payable  (Currently in Progress)	<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>
Finance  Purchasing	Purchasing	<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.</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>
Office of the City Manager  Fire and Rescue Services	Fire and Rescue Services	<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>

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

Commission and Department	Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)
Community Services Building and Facilities	Building and Facilities	<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>
Public Works and Engineering Public Works	Road Maintenance	<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>
Public Works and Engineering Public Works	Winter Control	<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>
Planning Building Standards	Building Standards	<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>
Community Services Recreation	Recreation	<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>

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

Commission and Department	Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)
Finance  Financial Services	Property Tax	<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>
Planning  Policy Planning/Urban Design	Policy Planning/Urban Design	<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>
Enterprise  Accountability/Governance	Management Governance/Accountability Framework	<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>
Enterprise  Fraud Awareness	Fraud Risk Assessment and Awareness	<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>

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

Commission and Department	Audit Project	Rationale and Risks (Why are we doing this Audit/Project?)
<b>Reserve Projects</b>		
<b>Enterprise Business Expenses</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>Enterprise Emergency Management</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>

# Internal Audit Risk Based Audit Plan 2012 - 2014

ATTACHMENT 2



## Audit Planning Framework

