

Date: 2024-01-18

Subject: **2024 Internal Audit Work Plan and 2023 Status Update**

Contact: Claire Mu, Director, Internal Audit

Report Number: CAO's Office-2024-103

Recommendations:

1. That the report titled: **2024 Internal Audit Work Plan and 2023 Status Update** to the Audit Committee Meeting of February 6, 2024, be received.

Overview:

- This report provides the Audit Committee with the Internal Audit Work Plan for 2024, as well as a status update on the Internal Audit Work Plan for 2023.
- Seven new audits are planned for 2024, including two IT audits.
- “Audits on the Horizon” lists potential replacement projects in 2024 or projects to be taken on should additional resources become available. “Audits on the Horizon” allows Internal Audit the flexibility to adjust its engagements to help address auditee operational issues that potentially impact their ability to support audits and Internal Audit staffing level fluctuations.
- Internal Audit completed the amended 2023 Audit Work Plan, consisting of eight audits, the same number we had proposed at the beginning of the year. Seven audits were part of the initial Internal Audit Work Plan. At the request of the Council, we conducted a review of the Q2 2023 Procurement Activities. This additional audit necessitated the postponement of the By-law Enforcement Audit, originally scheduled for Q4 2023, to 2024.
- The 2024 Internal Audit Work Plan was developed using a risk-based approach that considered a corporate-wide risk assessment, input from senior management and the Audit Committee, evaluation of past audits, a survey of audits and issues from other Canadian municipalities, emerging risks, and allegations received by the Ethics Hotline.

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| <ul style="list-style-type: none">• Internal Audit reviews the Work Plan regularly and makes updates based on current information, discussions with senior leadership, audit issues, and risk reviews. |
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Background:

The Director of Internal Audit has the responsibility to submit, at least annually, to the Audit Committee a risk-based Internal Audit Work-Plan ('Plan') for review and approval.

The 2024 Plan was developed using a risk-based approach that complies with Institute of Internal Auditors (IIA) standards. Several factors were taken into consideration in developing the Plan, such as:

- The 2021 KPMG Risk Assessment and the resulting Audit Universe and the associated risk ratings
- The 2022 Ernst & Young (EY) IT Risk Assessment
- A survey of past audit reports and audit results
- A survey of audit reports from other Canadian municipalities
- Input from Senior Management, CAO and Audit Committee Chairs
- Allegations from the Ethics Hotline
- Current and emerging risks
- Review of industry analysis and reports (for IT Audit Work Plan).

Additional Information on Documented Risk Assessment:

A corporate-wide risk assessment was completed in 2021 by KPMG. The assessment mapped out all auditable areas within the City and grouped them into four sections: core operations, business change, emerging areas and core external risk. Each auditable area was given a priority rating of "High," "Medium," or "Low." Ten areas rated "High" risk have since been audited, except for Transit Revenue.

An IT risk assessment was completed in 2022 by EY. The assessment was carried out to assist in planning audit work for 2023 through 2025. The assessment was based on industry knowledge and experience, risk management activities, strategic and operational plans, and input from senior management. Each IT risk area was given a ranking of "Critical," "High," or "Medium." The three areas rated as "Critical" were Cybersecurity, Data Privacy and Security, and IT Service Continuity. Both Cybersecurity and Data Privacy were audited in 2023, and IT Service Continuity will be audited in 2025 as IT staff are still working to implement past audit recommendations on the IT Service Continuity Plan.

To comply with IIA Standards, the audit plan must be based on a documented risk assessment undertaken at least annually and with consideration of input from senior management and the board.

A risk assessment questionnaire was sent to senior management of 11 business units that were identified in the KPMG risk assessment as high or medium risk. The audit universe, originally compiled by KPMG, was refreshed with risk information obtained through the questionnaires. The questionnaire addressed the departments' strategic, financial, reputational, compliance, and operational risks. Based on the responses, risk factors were assessed, recalibrated in some cases, and ranked to determine which audits will be completed in 2024.

Transit Revenue Audit

The Transit Revenue audit was scheduled for 2024 based on the Corporate Risk Assessment. However, after discussing with Transit staff and the Chair of the Audit Committee, we were informed that Transit is currently facing several challenges. Conducting an audit now would strain Transit's ability to deliver services. Here are some of the considerations:

- Implementation of an unprecedented transit service increase in 2024, adding over 110,000 service hours and hiring more than 160 employees
- Negotiations for two collective bargaining agreements in 2024
- Appointment of a new Transit General Manager in May 2023.

Due to the reasons mentioned above, the Transit Revenue Audit is expected to be taken up in 2025 and will be listed under "Audits On the Horizon."

Other Consideration and Consultation with the Chairs of the Audit Committee

The 2024 Audit Work Plan, including the risk assessment results, was presented to the Audit Committee Chairs on January 22, 2024.

The Internal Audit team regularly reviews and modifies the annual Audit Work Plan in response to changes in the organization's business, risks, operations, programs, systems, and controls. This includes adjusting the Plan due to any staff fluctuations within our team. Any updates or changes made to the plan are communicated to the Audit Committee every quarter.

Current Situation:

2023 Status Update

Appendix 1 sets out the status of the 2023 Audit Work Plan. Internal Audit completed the amended 2023 Audit Work Plan, consisting of eight audits, the same number we had proposed at the beginning of the year. Seven audits were part of the initial Internal Audit Work Plan. At the request of the Council, we conducted a review of the Q2 2023 Procurement Activities. This additional audit necessitated the postponement of the By-law Enforcement Audit, which was originally scheduled for Q4 2023, to 2024.

2024 Audit Work Plan

Appendix 2 sets out the 2024 Internal Audit Work Plan.

Appendix 2 also lists “Audits on the Horizon.” These are potential replacement projects in 2024 or projects to be taken on if additional resources become available. “Audits on the Horizon” provides Internal Audit with the flexibility to address unforeseen operational issues that impact our work, both from the auditee side and within the Internal Audit Division.

Any changes to the Audit Work Plan may require the removal or deferral of a project identified within this report or hiring an outside auditor to perform the audit. Changes to the annual Audit Work Plan will be communicated to the Audit Committee quarterly.

Non-Audit Work Planned by Internal Audit

In addition to conducting audits, Internal Audit has planned non-audit work for 2024 to improve both internal audit and corporate-wide processes.

- Continue to focus on staff retention and development
- Develop a robust quality assurance and improvement program
- Automate the City’s Management Action Plan follow-up process
- Build IT audit continuity and increase IT audit capacity
- Continue to manage the Ethics Hotline on a best-effort basis until we receive dedicated resources for the Ethics Hotline
- Redevelop SharePoint space for Internal Audit
- Create an electronic library of all past audits through website redevelopment.

Corporate Implications:

Financial Implications:

N/A

Other Implications:

N/A

Strategic Focus Area:

Government & Leadership: Focusing on service excellence with equity, innovation, efficiency, effectiveness, accountability, and transparency.

Conclusion:

The Internal Audit Work Plan will be reviewed regularly and updated when needed. Internal Audit intends to keep the Work Plan agile and flexible, ensuring that identified and emerging risks are appropriately addressed. The Plan is designed to add value to the organization and provide the highest standard of professional, independent, and timely solutions in partnership with City departments.

Authored by:

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Reviewed and approved by:

Claire Mu, Director, Internal Audit

Attachments:

Appendix 1: 2023 Audit Work Plan Status Update

Appendix 2: 2024 Internal Audit Work Plan