

FINANCE AND ADMINISTRATION COMMITTEE MEETING –FEBRUARY 13, 2012

INTERNAL AUDIT ANNUAL REPORT FOR 2011

Recommendation

The City Auditor presents the Internal Audit Annual Report to Council for information purposes and receipt.

Contribution to Sustainability

Not applicable.

Economic Impact

There is no economic impact.

Communications Plan

The agenda containing this report is available in the office of the City Clerk and on the City's website.

Purpose

The purpose is to provide Council with information of the activities of the Internal Audit department for 2011 and planned objectives for 2012.

Background - Analysis and Options

The annual internal audit report summarizes for 2011, (1) Audit philosophy (2) the activities (audit and non-audit) undertaken by the internal Audit department, (3) the audits completed with reports brought to Council, (4) audits completed but the reports are being finalized, (5) audits currently on-going (6) audit objectives for 2012 (7) professional development and (8) benefits of the audit function. The benefits result in audit recommendations and corrective actions which are often not quantifiable or measurable but improves (a)internal control, (b)risk management, (c)corporate governance, (d)management of public funds and (e)economy, effectiveness and efficiency in operations.

The report is provided as an attachment.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable

Conclusion

The annual report is presented to Council for information and receipt purposes. The report summarizes the audit activities for 2011, the objectives for 2012 and the benefits of Internal Audit.

Attachments

Internal Audit Annual Report for 2011

Report prepared by:

Michael Tupchong
City Auditor

Respectfully submitted,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor



Date: February 13, 2012
To: Members of Council
From: Michael Tupchong, City Auditor
Subject: **Internal Audit Annual Report for 2011**

This report summarizes the activities (audit and non-audit) of the Internal Audit Department for 2011 and the action plans for 2012. It also includes the benefits of the Internal Audit function and the annual mandatory professional development.

Audit Philosophy and Focus

The audit function is independent and objective. Audit findings are reported as factual information observed at the time of the audit, and are never intended to discredit, criticize or undermine any staff member or management. The purpose is to work with all departments as independent “business partners/consultants”, to build consensus and improve all areas. This will result in a win situation for the department, the City and the residents of Vaughan.

Council Member Expense Policy

For the year 2011, the City Auditor reviewed weekly expenses of Council Members to ensure that the submitted expenses were in compliance with the Council Member Expense Policy. The review of Council Members’ expenses commenced on February 1, 2010 which was the effective implementation date of the new Council Member Expense Policy and was to end on November 30, 2010 on the election of new Council. However the review was extended to 31 December, 2011. This was done to provide practical training for new Executive Assistants of Council Members as well as protection for Council Members.

Commencing on January 3, 2012, Executive Assistants forwarded expenses directly to the Finance department. The Mayor’s expenses however will still be forwarded to the City Auditor.

Training on the Council Member Expense Policy was provided to new Council Members and their staff who attended, in the first quarter of 2011.

A revised Council Member Expense Policy with refinements for greater clarity and better understanding, was presented to the Finance and Administration Committee on October 3, 2011 and approved by Council on October 18, 2011. A Council Member Expense Task Force was set up on October 3, 2011 to review the Council Member Expense Policy for further improvement and refinement.

On January 10, 2012, four staff and two Council Members of the Task Force were present for the first meeting. During the discussion, the two attending Council Members were satisfied with the most recent revised policy. The Chair subsequently issued a memo to the two absent Council Members requesting them to bring forward any concerns they may have regarding the current Council Member Expense Policy.



Consulting and other tasks

Internal Audit provided consulting services to various staff members of a number of departments throughout the year. Internal Audit was also part of the selection team to select the auditors of the new City Hall.

Audit Reports Submitted for the year

The following audit reports were presented to the Finance and Administration Committee for approval in 2011:

- Audit of Computer Hardware and Software Purchase, Replacement and Disposal in which 10 recommendations were made.
- Audit of Reserves and Investments in which 9 recommendations were made.

Audit Fieldwork completed and Reports are being finalized

- Audit of Human Resources
- Audit of Fleet
- Audit of Path System Group/Zone Infosys Inc/Basswood Tech Inc
- Audit of Parks & Forestry
- Audit of Parks Development

During this period, draft reports showing auditor's observations, implications and recommendations, are reviewed with the Director of the department. The Commissioner and Director are then given time to prepare the corrective actions and review the report for clarity and accuracy. At this time the draft report may go back and forth between the auditor and the department multiple times. Once there is mutual agreement on the facts and corrective actions, the report is forwarded and reviewed with the Commissioner and then the City Manager so that he is aware of the contents of the report and if there are any areas of disagreement which there should not be at this point. These reports will be presented to Council in 2012.

Audit Work Currently On-going

The auditor is in the process of planning and preparing the development of the new 3 year risk-based audit work plan. This will involve many hours of work in meeting with the director of each operational department within the City. This is further discussed below.

Benefits of the Audit Function

It is important to appreciate that the benefits of the audit function are not always quantifiable. A majority of reports have far reaching but unquantifiable long-term benefits to the City. The benefits arising from the prevention of potential risks which may or may not happen, are hard to quantify. Yet if nothing is done to reduce a potential risk and the risk does occur, only then can the extent of the damage be determined. However it is more prudent to prevent/reduce the risk to acceptable levels than to allow it to happen.



The audit function results in audit recommendations and corrective actions which is discussed below. The audit function also provides consulting services to all departments of the City.

Audit Recommendations

In preparing recommendations, the auditor is cognizant of the cost vs benefit of implementation. The cost of implementation should not exceed the benefit derived from the implementation unless the control to be implemented is extremely important. Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. The purpose of recommendations is to mitigate risks to acceptable levels, improve controls, improve corporate governance, improve stewardship of public funds and improve value-for-money in operations.

Corrective actions generally follow the audit recommendations but need not in some cases. However the corrective actions should reduce risk to acceptable levels and be satisfactory to the auditor.

Follow-up on Corrective Actions

Once the audit reports have been approved by Council, follow-ups are done, requesting the status of corrective actions as to whether they are completed, in progress or not-yet started. The follow-ups are done periodically until all corrective actions have been implemented.

Audit Recommendations/Corrective Actions will improve one or more of the following

- Reliability and integrity of financial and operating information.
- Compliance with policies, plans, procedures, laws, and regulations.
- Safeguarding of assets and, as appropriate, verifying their existence.
- Economy, efficiency and effectiveness of the use of resources.
- Results of operations or programs versus established objectives and goals.
- identification of risk exposures and their control.
- Identification of fraud exposures and their control.
- Stewardship of public funds
- Achievement of value-for-money in operations

Action Plans for 2012

During the next few months, the City Auditor will be meeting with individual Directors of operational departments to assess risks in programs within their supervision. The assessment of risk is required in the preparation of the risk-based audit work plan.

A 3 year work plan will be prepared and prioritized. The work plan will be brought to Council for approval.

The Audit Charter which is the Internal Audit Mandate will also be reviewed and brought forward for Council approval.



Professional Development

It is mandatory for auditors with professional designations and certifications to complete 40 hours of professional training annually. This has to be reported to the professional associations annually. Therefore it is imperative for the auditor to continue to participate in 40 hours of seminars/conferences during the year. This also incorporates the roundtable and networking with municipal auditors across the Greater Toronto Area twice a year, in the two meetings organized by the Municipal Internal Auditors Association. Professional development and networking will assist the auditor in keeping abreast of current practices, trends and how we are doing in comparison with other municipalities in terms of audits completed, in progress, planned and staffing.

Conclusion

The Internal Audit function assists the City and all corporations in (1) improving the internal control process of doing business; (2) identifying and mitigating risks to acceptable levels; (3) improving monitoring, communication and corporate governance; (4) improving the economy, effectiveness and efficiency in operations; and (5) is a watchdog over the management of public funds. Internal audit improves accountability and transparency. Internal audit is an agent of positive change. Its mere existence is a form of control.

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor