
Subject: 2019 Internal Audit Plan

Report to: Audit Committee

Report date: Monday, February 4, 2019

Recommendations

That the 2019 Internal Audit Plan attached as Appendix I of Report AC-C 5-2019, **BE APPROVED.**

Key Facts

- The 2019 Internal Audit Plan was developed based on feedback obtained from Audit Committee members, Corporate Leadership Team and selected directors as well as a comprehensive risk assessment of the organization and jurisdictional scan of internal audit plans from comparable Ontario municipalities.
- Internal Control & Organizational Performance (ICOP) is well positioned to independently and objectively carry out the projects identified in this Audit Plan.
- The objective of this 2019 Internal Audit Plan is to provide independent, objective assurance and advisory services designed to add value and improve the organization's operations and system of internal controls.

Financial Considerations

The execution of this Audit Plan will be performed within the confines of the operating budget of the Internal Control & Organizational Performance division. Outcomes from audit projects may have a financial impact on the 2020 budget or beyond.

Analysis

The mission of internal auditing is to provide independent and objective assurance and consulting services designed to add value and improve Niagara Region's operations by bringing a systematic and disciplined approach to evaluate risk management activities, internal controls and governance processes. The ICOP division has a professional obligation to develop a comprehensive risk-based annual audit plan. This is consistent with recommendations published by professional associations including the Institute of Internal Auditors (IIA) and the Chartered Professional Accountants (CPA) of Canada. Our mandate includes the processes, programs and functions of Niagara Region but does not include local Agencies, Boards, Commissions or local area municipalities.

The 2019 Internal Audit Plan was developed based on the following sources:

- Consultation meetings with Audit Committee members and the Regional Chair
- Consultation meetings with members of the Corporate Leadership Team and selected directors
- A risk assessment of processes, programs and functions across the organization
- A jurisdictional scan of hot topics, emerging risks and auditable areas in other local municipal organizations
- Requests from business units to proactively support program delivery

The two principle objectives of the 2018 Internal Audit Plan are:

- Provide assurance to the Audit Committee and Management that internal controls are operating effectively within the areas under review
- Provide recommendations to Management (where applicable) to continuously improve operations, increase efficiencies, mitigate risks or close control gaps

The approach and methodology practiced by the ICOP division will conform to the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards). In 2019, we will self-assess our conformance to these standards for the second time, then report the results to Audit Committee. An Internal Quality Assessment will occur every year, while an External Quality Assessment will occur every five years.

Generally we follow a risk-based approach to auditing; at the commencement of each audit project, we perform a comprehensive risk assessment to identify potential risks and map associated internal controls. Typically, only controls related to high and medium risks are tested. Internal controls are tested in a variety of ways and often the approach is dependent upon specific circumstances. Our audit approach typically includes:

- Observation
- Inspection
- Re-performance / re-calculation
- Analytical procedures
- External confirmation
- Inquiry

The composition of the ICOP team includes a balance of experience and skill sets to adequately complete the portfolio of audit projects. For projects where the ICOP team lacks the required skill set or resources to execute an audit project, a qualified external auditing firm will be retained to perform the work (i.e. Information Technology audits). Further personnel details are identified below:

Name	Title	Credentials	Start Date
Maciej Jurczyk	Director, ICOP	CPA, CMA, CIA, CRMA	26-Jun-17
Frank Marcella	Internal Auditor	MPA, Bed, CGAP	25-Aug-14
Mafu Ojisua	Process & Compliance Auditor	CPA, CMA	20-Nov-17
Vacant	Process & Compliance Auditor	-	-
Xiang (Henrik) Gao	Internal Audit Analyst	MBA	4-Sep-18

The resulting Audit Plan identified in Appendix I identifies 8 audit projects recommended to be performed by ICOP staff during the forthcoming year. It also identifies the scope, rationale and inherent risks for each audit project. The table below summarizes the 2019 Audit at a high level:

Employee benefits claims
Procurement: Sole / Single sourced
HR Employee On-boarding and Off-boarding
Driver Certification Program
Waste Management - Contract Compliance
Homelessness Service Providers Contract Compliance Audit
LTC Homes Risk Assessment
Water Treatment Operations Risk Assessment

In addition to performing independent and objective audit projects, the 2019 Audit Plan also sets time aside for:

1. Following-up with Management on historical audit findings
2. Reporting to the Audit Committee
3. Performing an Internal Quality Assessment
4. 2020 Audit Planning
5. Providing advisory services to Management or external stakeholders (i.e. LAM's) in the areas of: risk, internal controls, corporate governance and/or performing investigations (if required)
6. Assisting the External Auditor (if required)
7. Administrative time

ICOP will report to the Audit Committee on a quarterly basis with a status update of each approved audit project, completed Audit Reports and a dashboard of ICOP performance measures. Throughout 2019, ICOP will be responsive and flexible to accept new assurance or advisory projects identified by the Audit Committee or the Corporate Leadership Team.

Finally, ICOP has identified a tentative Three Year Audit Plan with the following assurance and advisory projects for the period 2020 – 2022. ICOP will re-evaluate the

Audit Plan on an annual basis with a goal of prioritizing high risk processes, programs and functions.

POA Revenue
Vendor/Consultant Performance
Real Estate Procurement & Disposition
Waste-water Operations Risk Assessment
Bridge Inspection Program
IT Cyber security & access controls
Vaccine inventory controls
Payment Card Industry (PCI) Compliance
Investments
Insurance
Facility Repairs, Energy and Occupancy of Regional sites
Facility Physical Access & Security
Occupational Health & Safety
Ontario Works Eligibility Assessment Process
Niagara Specialized Transit Performance
Business Continuity Management & Disaster Recovery Planning

Alternatives Reviewed

Preparing an annual audit plan is a best practice and professional requirement as prescribed by professional associations including the Institute of Internal Auditors, therefore not preparing a plan was not considered. Within the plan, various options for audit projects were considered, with many of these alternatives included above.

Relationship to Council Strategic Priorities

This Audit Plan was designed to align with the past term of Niagara Regional Council's Strategic Priority of "Advancing Organizational Excellence". Specifically, Value For Money audits were identified and approved as a Council Strategic Priority.

Other Pertinent Reports

CBPCOTW CAO-Our Way Forward – FINAL dated February 23, 2017
AC-C 4-2017 Audit Committee Terms of Reference Revisions
AC-C 14-2017 2017 Interim Audit Workplan
AC-C 6-2017 2018 Internal Audit Workplan

Prepared by:

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Director
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Recommended by:

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Commissioner
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Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was reviewed by Frank Marcella, Internal Auditor, Mafu Ojisua, Process & Compliance Auditor, Xiang (Henrik) Gao, Internal Audit Analyst and Kristen Delong, Manager, ICOP.

Appendices

Appendix 1 2019 Annual Audit Plan

Niagara Region - 2019 Annual Audit Plan

Audit Project	Last Time Audited	Dept / Division	Budgeted Time (hrs)	Scope, Rational, Risks
Employee Benefits Claims	Never	Corporate Services	1190	<p>Scope: To evaluate the internal controls around health, dental and other extended benefits provided to Niagara Region employees and to ensure that financial transactions are being remitted and recorded according to HR policies and procedures. Fraud prevention and detection controls will be evaluated and the contractual agreement with the service provider will also be reviewed.</p> <p>Rationale: Recent high profile and publically reported frauds detected in other comparable organizations: TTC, City of Toronto, City of Ottawa, St. Michael's Hospital.</p> <p>Risks: Inaccurate processing of employee health, dental or other extended medical benefits resulting in over-payments by Niagara Region. Fraudulent behaviour or usage of employee benefits may erode public trust resulting in a loss of the corporation's reputation.</p>
Procurement: Sole / Single sourced	Never	ERMS	840	<p>Scope: This audit will evaluate the process specifically for single and sole-sourced procurements. The scope will include a review of the rationale, requirement and approvals around single and sole-sourced procurements. ICOP will scrutinize the veracity of emergency transactions, purchases made for compatibility with existing products/equipment, trials, purchases for unique/customized specifications and other exceptions permitted in the Procurement By-law.</p> <p>Rationale: This audit will have a targeted focus on single/sole-sourced procurements which tend to be generate a higher degree of public interest, particularly in the public sector. High volume of transactions and materially significant (approximately 550 PO's / \$44M in 2017) and 530 PO's / \$24M in 2018).</p> <p>Risks: Non-compliance to procurement policies, procedures and by-law or uncompetitive behaviour may lead to financial or legal implications. In addition, a loss of community trust may occur if the procurement process is perceived to be uncompetitive.</p>
HR On-boarding & Off-boarding Audit	Never	Corporate Services	700	<p>Scope: A review of the HR operational and IT procedures associated with the on-boarding (i.e. recruiting, accuracy of job data, training) and off-boarding (i.e. termination, resignation, retirement) of Niagara Region employees to improve the efficiency and effectiveness of the corporations processes and procedures. The audit will include a review of final payroll transactions (i.e. severance), IT user permissions (i.e. access to confidential medical records) and competitiveness of recruiting process.</p> <p>Rationale: Staff direction from Audit Committee on October 31, 2017 after discussing the 2018 Audit Plan (AC-C 6-2017). Employee hiring practices were noted during interviews and within Burgoyne Bridge Audit.</p> <p>Risks: Non-compliance to HR or IT processes or procedures may result in financial, legal or privacy implications. Control gaps may also lead to operational inefficiencies, employee morale or labour relations issues and loss of public trust.</p>
Driver Certification Program Audit	Never	Public Works	210	<p>Scope: Using the standard Driver Certification Program audit plan, assess compliance to Ontario Ministry of Transportation's (MTO) regulatory requirements for commercial fleet operators (specifically for 'Signing Authorities' approved by the MTO to deliver driver training and testing).</p> <p>Rationale: This is a standard audit performed by multiple Ontario municipal audit teams. Performing the audit in-house will result in cost savings for Public Works department (vs. out-sourcing).</p> <p>Risks: Meeting or exceeding the MTO's regulatory requirements are mandatory to continue participating in the Driver Certification Program. Continued participation in the program has numerous benefits including higher staff engagement and lower driver training/testing costs.</p>
Waste Management Contract Compliance Audit	Never	Public Works	700	<p>Scope: To independently evaluate the performance and compliance of Waste Management division's contractor against its contractual obligations. The audit will also examine staff's efficacy at managing their service provider (i.e. performance measures, enforcement protocols, dispute resolution, contingency plans etc.).</p> <p>Rationale: Waste Management contractor is Niagara Region's largest vendor at \$21M in annual spent (8% of all PO's). High public attention, complex operational requirements, and high financial impact.</p> <p>Risks: Insufficient service levels by the contractor may directly impact Niagara residents. Financial, legal and reputational risks may also occur if compliance to the service agreement is not maintained.</p>
Homelessness Service Providers Contract Compliance Audit	Never	Community Services	700	<p>Scope: To evaluate the compliance of homelessness service providers against their existing contractual obligations as well as the efficacy of staff from the Homelessness & Community Engagement division to manage their service providers. The ultimate objective of the audit is to strengthen the terms and conditions of future contracts in the next RFP planned for 2020.</p> <p>Rationale: Independent and objective audit was requested by Community Services department to enhance accountability amongst industry service providers.</p> <p>Risks: Homelessness service providers are under contract with Niagara Region to care for vulnerable sectors of Niagara Region's population. A high degree of public attention and trust is placed on these service providers to provide quality care within Niagara Region's standards. Non-compliance to Niagara Region's standards of care may result in insufficient care for vulnerable people, a loss of public trust (reputational risk) and/or inefficient usage of Community Services' budget.</p>
Long Term Care Homes Risk Assessment	Annually by Ministry of Health & LTC	Community Services	210	<p>Scope: ICOP will assist Senior Services staff perform their annual risk assessment requirements for the Ministry of Health and Long-Term Care. ICOP will apply an independent lens to determine if current practices adequately identifies risks and opportunities, and that there are appropriate action plans to manage and mitigate these risks.</p> <p>Rationale: Through a comprehensive risk assessment, this was identified as one of the top risks in the organization. Specifically: a high complexity of operations, high degree of regulatory/statutory compliance requirements, high employee turnover, a risk event would result in a major loss of stakeholder confidence (high reputational risk), and high financial impact to annual Regional budget.</p> <p>Risks: A significant injury or death to a LTC home resident under the care of Niagara Region would be a major risk event with financial, legal, regulatory and political implications.</p>
Water Treatment Operations Risk Assessment	Periodically by Ministry of Environment & Climate Change	Public Works	210	<p>Scope: A risk assessment of Water Operations (including the Quality Management System) to determine if current processes adequately identify risks and opportunities, and ensure that there are appropriate action plans to manage and mitigate these risks. ICOP will perform a detailed analysis of the Ministry of Environment & Climate Change inspections and the Region's responses to identify whether additional assurance is required.</p> <p>Rationale: Through a comprehensive risk assessment, this was identified as one of the top risks in the organization. Specifically: high degree of regulatory/statutory compliance requirements, a risk event would result in a major loss of stakeholder confidence (high reputational risk) and high financial impact to annual Regional budget.</p> <p>Risks: A major disruption or contamination of Niagara Region's clean drinking water would have severe financial, legal, regulatory and political implications.</p>