



City of Markham Presentation to the General Committee

Auditor General Services Four Year Audit Plan

May 30, 2016

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Auditor General, City of Markham

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Final Audit Charter

- The purpose of the audit charter is to serve as the formal document outlining the following:
 - Scope of Auditor General Audit function;
 - Accountability;
 - Authority, Access and Support;
 - Responsibility;
 - Independence and Objectivity;
 - Reporting and Monitoring; and,
 - Standards.
- The draft Audit Charter was presented to and reviewed by Council in January/February, 2016.
- A question period was provided by the Auditor General (“AG”) to Council on the audit charter. No edits were made.
- Refer to Appendix A for the final Audit Charter.

Audit Plan Approach

A strong system of internal control is essential to effective enterprise risk management....

- Enterprise Risk Management (“ERM”) plays an important role in the Auditor General’s audit function.
- The application of risk-based concepts and techniques in both the selection and execution of audit projects is crucial in supporting the strategic vision and mission of the City of Markham.
- When preparing the audit plan, our first step was to conduct an enterprise wide risk assessment.

Audit Plan Approach

- To conduct the enterprise wide risk assessment, we performed the following:
 1. Conducted one-on-one interviews and risk identification workshops to gather information and to understand the risks at the departmental level.
 - a) One-on-one interviews held with Councillors, the Chief Administrative Officer (“CAO”) and Commissioners.
 - b) Workshops held with Senior Management and City staff.
 - c) Risk voting sessions conducted with all of the above.
 - d) In total, the AG had over 90 touchpoints between Council and City Staff.
 2. Compiled a prioritized listing of the 46 risks identified during the interviews and workshops, which formed the “Audit Universe”.

Audit Plan Approach

4. Independently assessed the audit universe and built the four year Audit Plan and timing of audits, considering:

1. **Severity of each inherent risk (in the absence of mitigating controls).**
2. **Strategic relevance to the organization.**
3. **Areas, functions, or processes where there has been significant change in the past year or expected change in the coming years.**
4. **Emerging issues or trends.**
5. **Areas of particular complexity.**
6. **Functional areas that are core to the City's operations.**

5. The four year audit plan was developed based on the results of the recently conducted risk assessment and current internal/external factors. As we progress with the Auditor General services and based on subsequent updates to the risk assessment, the plan is subject to change.

Audit Plan Approach

- Risk ranking is based on **risk criteria scores** in the risk assessment and the inherent risks identified.
- When prioritizing which risks to audit and timing of the audit, consideration is given to **inherent** risk, given that **residual** risk is based on management’s assessment of the strength of mitigating controls, and the role of the Auditor General continues to be an objective assessment of management’s controls.

Risk Score	Level of Assessment
15 - 25	High/Critical
11 - 14	Moderate
1 - 10	Insignificant/Low

- Consideration is also given to the **level of effort** required for each audit project and resourcing needs. This will allow the Auditor General to determine the scope of the planned audits per year to be based on priority, capacity, and skills required to conduct the audit.

Effort	Scope of Work
Major	Detailed Testing
Moderate	Limited Testing
Minor	Review

Four Year Audit Plan

- We have committed to completing 10 audits over 4 years, planned as follows:
 - 2016 – 2 audits
 - 2017 – 3 audits
 - 2018 – 3 audits
 - 2019 – 2 audits
- The Audit Plan will be reviewed at least annually to confirm the upcoming year's audits and make adjustments accordingly.
- The audits in 2017, 2018 and 2019 have been presented in the plan, however, we will maintain flexibility to adjust the timing and scope of the audits, in order to address emerging issues as they arise or Council requests, if any.

2016 Annual Audit Plan

Timing	Dept. or Division	Risk Name	Risk Description	Proposed Audit Scope
Q3 (July to Sept)	Applicable Departments	Tax/Water Revenue	The risk that property tax and water revenue is not accurately and timely invoiced, collected and accounted for.	Assessment of the City's processes and controls related to tax and water revenue, including set up of tax & water account, billings & collections, and reconciliations of information from databases/systems. This will be accomplished through the use of various data points (i.e. MPAC, roll numbers, registered lots, etc.) and analytics.
Q4 (Oct to Dec)	Applicable Departments	Cash Management	The risk of poor cash management processes.	Assessment of the cash handling and management practices throughout a representative sample of the City's locations where payments are processed. Includes recommendations related to payment card best practices and standards (i.e. PCI).

2017 Annual Audit Plan

Timing	Dept. or Division	Risk Name	Risk Description	Proposed Audit Scope
Q1 (Jan to March)	ITS	Cyber Security	The risk that the organization does not have adequate measures in place to protect its IT systems and information from attack.	Assessment of the City's logical security and management/monitoring controls relating to cybercrime prevention, detection and incident management processes, policies, procedures and governance activities. Focus will be on cybercrime management standards, guidelines and procedures as well as the implementation and governance of these activities.
Q2 (April to June)	Procurement / Finance	Procurement/ Vendor Management	The risk of an ineffective, inefficient and inappropriately controlled procurement process.	Review of vendor management practices with regards to initial set up to test the effectiveness of controls in place to ensure vendors are approved and authorized (non-fictitious), performance measurement, and use of analytics to monitor and assess vendor activities and termination (final contract close-out) and payment. The review will include a cross section of large procurements and small works.
Q3 (July to Sept)	ITS	IT System Effectiveness	The risk of the inadequacy or non-integration of IT systems resulting in an inability to meet user requirements.	Post Implementation Review of the HRIS system for design and operating effectiveness, including whether the system functionality meets user defined scope/requirements.

2018 Annual Audit Plan

Timing	Dept. or Division	Risk Name	Risk Description	Proposed Audit Scope
Q1 (Jan to March)	Applicable Departments	Development Charges	The risk that development charges are not accurately and timely invoiced, collected and accounted for.	Assessment of the City's processes and controls related to development charges, including completeness (i.e. translation of all incoming applications into development charges), collections and remittance of charges, and reconciliations.
Q3 (July to Sept)	Finance and Human Resources	Payroll	The risk that the City does not have the appropriate processes and controls in place to ensure payroll is authorized (non-fictitious employees) and accurate.	Review of payroll processes and controls after the implementation of the HRIS system to evaluate the design and operating effectiveness of controls.
Q4 (Oct to Dec)	Asset Management	Physical Infrastructure & Assets	The risk of an inappropriate or unsustainable approach to the City's physical infrastructure arising from either internal or external factors.	Assessment of the City's processes related to property and asset management, including use of analytics/metrics to assess how effectively and efficiently the assets are being managed against property management best practices.

2019 Annual Audit Plan

Timing	Dept. or Division	Risk Name	Risk Description	Proposed Audit Scope
Q1 (Jan to March)	Legislative Services	Information Management	The risk of the inability to manage information (including agreements, documents and data), resulting in inconsistent practices, inefficient sharing of information, and inability to effectively respond to Freedom of Information ("FOI") requests.	Audit of compliance to the Records Retention By-law, as well as review of records management processes and practices for efficiency, including FOI request handling and tracking, against commonly accepted practices.
Q3 (July to Sept)	Applicable Departments	Building and Development Review Process	The risk of an ineffective, inefficient and inappropriately controlled development review process.	Review of the building and development review process for the existence of adequately designed and effective internal controls after the implementation of ePlans; to assess the adequacy, sufficiency, timeliness, and accuracy of the department's review procedures.

Audit Plan Execution

- Each individual audit will be separately planned, and commence with the completion of an audit planning memo (“APM”), that will outline: Objective, Scope, Risks, Approach, Deliverables.
- The APM will be shared with Council in advance of the scheduled audit.
- Throughout the conduct of the audit, information will be gathered from City staff through interviews, review of relevant documentation, and independent testing.
- Findings will be validated with the Chief Administrative Officer (“CAO”) and Commissioners, for factual accuracy.
- Once the audit has been completed, a formal audit report will be prepared and presented to Council.

Q & A

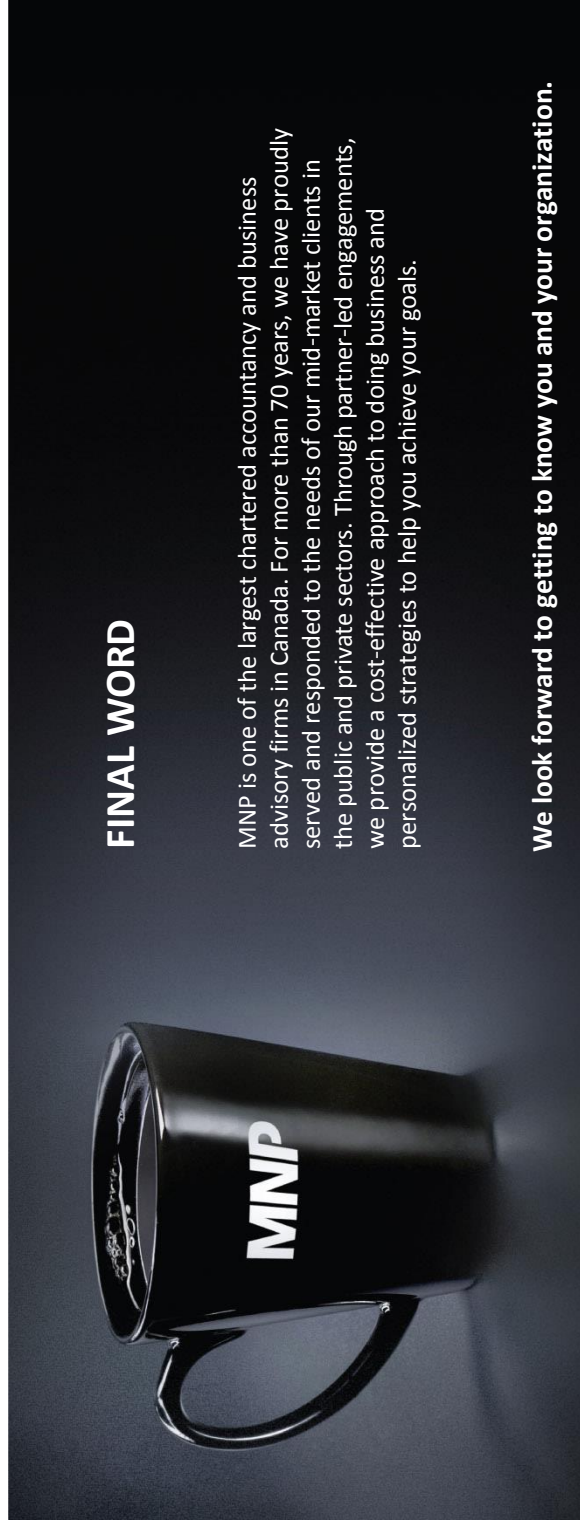
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FINAL WORD

MNP is one of the largest chartered accountancy and business advisory firms in Canada. For more than 70 years, we have proudly served and responded to the needs of our mid-market clients in the public and private sectors. Through partner-led engagements, we provide a cost-effective approach to doing business and personalized strategies to help you achieve your goals.

We look forward to getting to know you and your organization.

Appendix A – Final Audit Charter

CITY OF MARKHAM
AUDITOR GENERAL SERVICES
AUDIT CHARTER

Reviewed by: General Committee of Council
Date: May 30, 2016

Approved by: City of Markham Council
Date: May 31, 2016

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INTRODUCTION

The Auditor General (“AG”) for the City of Markham reports through General Committee to Council. The purpose, scope, authority, responsibilities and accountability of AG activities are described in this Audit Charter (“charter”).

This charter shall be periodically reviewed and updated as required, in consultation with the General Committee.

PURPOSE

The purpose of the AG is to provide independent, objective assurance and advice designed to add value and improve the City’s operations. The AG will collaborate with management and help the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

In addition to these primary services, the AG shall provide guidance to improve the effectiveness of controls, examine suspected fraudulent or irregular activities, and provide advisory services to assist with the improvement of operational activities.

SCOPE

The scope of the AG is defined annually through the approved Audit Plan and includes all audit activities to assist management in determining whether the City’s network of governance, risk management, and control processes, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Interactions and arrangements with third parties, including external parties, are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources and assets are acquired economically, used efficiently, and adequately safeguarded.
- Operations and initiatives are conducted to deliver results that are consistent with established objectives and goals.
- Quality and continuous improvement are fostered in the City’s control process.
- Legislative or regulatory compliance issues impacting the City are recognized and addressed appropriately.

Opportunities for improving management control, financial and operating results, and the City’s structure or performance may be identified during audits. To fulfill its objective of adding value and improving the City’s operations, the AG will validate audit findings and recommendations with the appropriate level of management and obtain management responses and action plans to include in audit reports.

ACCOUNTABILITY

The AG, in the discharge of his duties, shall be accountable to Council through the General Committee to:

- Provide coverage of the adequacy and effectiveness of the City's processes for controlling its activities and managing its risks.
- Report important issues related to the processes for managing risk and controlling the activities of the organization, including potential improvements to those processes, and provide information concerning such issues through resolution. This includes coverage of risk management and governance practices.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources. This includes ensuring the resources are sufficient in amount and competency, through in-house staff and co-sourcing, to cover the risks in the annual audit plan.
- Coordinate with and provide coverage of other control and monitoring functions (risk management, governance, compliance, security, legal, ethics, environmental) and external audit.
- Along with management, establish a follow-up process to track and monitor the effective implementation of management actions related to important issues and recommendations.

AUTHORITY, ACCESS AND SUPPORT

For the purpose of this charter, affiliates of the City include, but are not limited to, service providers, subcontractors, consultants or any other party performing work, whereby the City has an oversight role.

The AG shall have access to any functions, meetings, records, physical property, and personnel required to carry out their responsibilities. The AG shall handle confidential information by adhering to the same restrictions that apply to the department that manages it. The AG should also have full and free access to the General Committee and Council.

The Mayor and City councillors, management and staff shall provide full cooperation, access to records, explanations, assistance, and general facilitation to complete audit endeavours.

The Commissioner, Corporate Services or their designate is authorized to:

- Coordinate with management to ensure the audit personnel and contracted resources have unrestricted access to all functions, meetings, records, physical property, and personnel required to carry out their responsibilities.
- Coordinate with management to allocate internal resources and/or seek from management the necessary assistance of personnel in departments of the City or those contracting with the City in order to accomplish audit objectives.
- As part of carrying out his/her responsibilities or at the request of management, provide advice to management on the audit process, as deemed appropriate.

RESPONSIBILITY

The AG's responsibilities and accountability are defined and approved by Council through the General Committee, which includes all activities that encompass:

- The examination and evaluation of the adequacy and effectiveness of the system of internal controls; and,
- The quality of performance in carrying out assigned responsibilities and operational activities.

The AG has responsibility to:

- Develop a four-year audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan, as well as any recommendations regarding changes to the plan, if required, to the General Committee for review and approval.
- Implement each annual audit plan, as approved, including as appropriate any special tasks or projects requested through General Committee for approval by Council.
- Maintain professional internal audit resources with internal audit staff and, where appropriate, external resources with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Evaluate and assess important merging/consolidating functions and new or changing services, business units, processes, systems, operations, and control processes coincident with their development, implementation, and/or expansion.
- Evaluate the reliability and integrity of operational and financial information and the means used to identify, measure, classify, and report such information.
- Evaluate the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluate the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Evaluate the effectiveness and efficiency with which resources are employed.
- Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals.
- Evaluate and report on risk management processes, significant risk exposures and control issues.
- Consider fraud risks during the planning of audits, alertness to process deficiencies or other red flags which indicate the possibility that fraud could or has occurred, the determination of whether further action is required, and the recommendation of investigations where appropriate.
- Assist as appropriate in the investigation of suspected fraudulent activities within the organization and notify management (where appropriate) and Council through the General Committee of the results.
- Issue periodic reports summarizing results of audit activities to the Executive Leadership Team and through the General Committee for approval by Council.
- Keep General Committee and Council informed of emerging trends and successful practices in internal auditing.
- Provide audit measurement goals and results to the General Committee and Council.
- Coordinate its plans and efforts with those of the external auditors to avoid duplication of audit effort and to optimize audit coverage.

- In discharging its responsibilities or at the request of management, as appropriate, provide advice to management that add value and improve an organization's governance, risk management, and control processes without the AG assuming management responsibility.
- Execute a quality assurance and improvement program to ensure the effective operation of audit activities and annually report the results of the program to the Commissioner, Corporate Services and Council through the General Committee.

INDEPENDENCE AND OBJECTIVITY

The AG is required to be independent and objective. In order to ensure maintenance of its independence and objectivity, the AG will remain free from interference by any element in the City, including matters of audit selection, scope, procedures, frequency, timing, or report content.

To provide for the organizational independence of the audit function, the AG will report functionally to the General Committee with administrative coordination provided by the Commissioner, Corporate Services to support the AG role.

To ensure objectivity, the AG shall not implement procedures or controls, develop records, or engage in any activity that would impair their objectivity. To assist management in discharging their responsibilities, the AG may take an active role in the formulation of policies and procedures, or the development of new systems. However to remain independent and objective, it will be in an advisory capacity, with final decisions and implementation being the responsibility of the appropriate management.

The AG shall not have direct responsibility for or authority over any activities which they review. To the extent that the AG has responsibility or authority over any of the activities being audited, objective assurance will be provided by internal auditors hired outside of the organization, the appointment of which is approved by Council.

The AG will attest to the organizational independence of the AG's audit activity and identify any unwarranted restrictions on audit scope, communications, access, and resources, including personnel and externally contracted resources to Council through the General Committee, at least annually.

REPORTING AND MONITORING

The AG will submit to the General Committee:

- A four-year risk-based audit plan for approval by Council.
- Annual audit plans will be developed based on a prioritization of the audit universe using a risk-based methodology, including input from the Mayor, Councillors, the Executive Leadership Team, senior management and other identified City staff. Any significant deviation from the approved audit plan will be communicated to the General Committee through periodic updates. Ultimate approval of the audit plan resides with Council.
- Quarterly reports and updates on the status of and/or recommendations to significant changes to the audit plan, regulatory updates, emerging trends, and other relevant matters.

- A written report will be prepared and issued following the conclusion of each audit engagement and once discussed with management, will be distributed as appropriate, including the General Committee. To ensure management feedback and to encourage management participation in the process, the audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations, including timetable of anticipated completion. All significant findings will remain open and reported quarterly to the General Committee until such time that the issue has been cleared.
- An annual report on the audit activities conducted during the preceding year.
- Immediate communication of any suspected or known instances of fraud to the General Committee.

STANDARDS

The internal audit profession is covered by the International Professional Practices Framework of The Institute of Internal Auditors. This framework includes mandatory elements consisting of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. The AG will meet these mandatory requirements of the profession.

The AG shall employ established and proven frameworks and practices that are appropriate for the City and for the effective performance of AG responsibilities.

The AG will annually discuss the results of the audit quality assurance and improvement program to ensure effective operation of audit activities in accordance with the above standards.

ENQUIRIES

Enquiries about this policy should be directed to the Commissioner, Corporate Services or the AG.

APPROVAL

The charter shall be approved by Council.