

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Office of the Chief Administrative Officer
Date	Monday, February 1, 2021
Subject	<b>2020 Internal Audit Summary and 2021 Work Plan</b>

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## Recommendation

That the report titled '2020 Internal Audit Summary and 2021 Work Plan' be approved.

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## Executive Summary

### Purpose of Report

To provide the Committee of the Whole-Audit a summary of Internal Audit activities for 2020 and to outline our plan for 2021 and subsequent years.

### Key Findings

- In April 2020, Internal Audit was placed on emergency leave because of the pandemic situation and returned to full capacity in July. Because of the time constraints faced, some activities that were to be completed in 2020 have been deferred until 2021.
- The Audit Plan (The Plan) has been reshaped in order to better align our activities with the Strategic Plan and risk environment highlighted during the pandemic.
- The Plan for 2021 will include a combination of annual core audits (cash handling review of a specific service area department, Driver Certification Program), completion of three audits carried forward from the 2020 plan, and two new engagements, namely; Data Analytics Pilot Project and as project lead for the 2021 Service Rationalization Review.
- The Plan complies with the City of Guelph's internal audit charter and supports the City's Strategic Plan.
- All internal audit activities are performed in an independent, collaborative and objective manner.
- In 2021, Internal Audit will begin to outline a new framework for audit selection and review that is tied to our Strategic Plan and the related budget and action plans. The collaborative approach will give both Senior Management and the Audit Committee greater clarity and insight into our planned activities going forward into 2022.

### Financial Implications

N/A

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# **Report**

## **Background**

A system of internal controls assists management staff in meeting their responsibilities for the efficient and effective operation of an organization. A well-managed control function is dependent upon many factors to ensure that key business objectives are met, they include; well-documented policies and procedures, clearly defined management responsibilities, external audits of financial information and systems, and internal audits of programs, systems, and processes. In order to ensure an effective control function these components must work together in a mutually supportive manner.

Internal Audit is one key element in a system of internal controls that are part of the City's management practices. Internal Audit provides an independent, objective assurance and consulting activity that, together with management practices and external audits, ensures that programs and services are delivered efficiently, effectively, and in compliance with internal policies and external regulations.

In 2020, Internal Audit's activities included administrative and organizational tasks to research and develop future audit projects for 2021 and beyond, compliance/process and follow-up audits and control consultations. Activities in each of these categories are briefly described below. In addition to the summary of work activities for 2020, we have outlined our work plan for 2021 and have proposed areas for future audits beginning in 2022 (see Attachment 1 – Internal Audit Work Plan 2021 and Attachment 2 – Long Term Audit Plan 2022-2024).

## **Preamble**

In January 2020, Karl Hutchinson assumed the role of General Manager, Internal Audit upon the retirement in late 2019 of the previous Internal Auditor. In April 2020, the Internal Audit department was placed on emergency leave due to the COVID-19 pandemic and returned to full capacity in July 2020. As a result, some of the planned projects that were part of the approved 2020 Audit Plan have had to be deferred until 2021. Those projects include; payroll follow-up audit, cash handling review, IT security review and the capital budget process review.

These projects have been included in the 2021 Internal Audit Work Plan, with the exception of the capital budget process review, which has been replaced by a project management office follow-up audit for 2021. The reason we replaced the capital budget process review was due to the recent implementation of the new budgeting process by our Finance department and to allow some time for maturity of these new processes. By reviewing the project management office in 2021, we will invariably touch upon some of the capital budgeting issues that are more pressing during this time of economic stress.

## **2020 Internal Audit Activity Summary**

### **Administrative and Organizational**

Internal Audit is part of the weekly Corporate Management Team (CMT) meetings in addition to 1:1 and quarterly meeting updates with the Chief Administrative Officer (CAO), Executive Team (ET) and the Chair of the Audit Committee. These meetings give Internal Audit greater clarity and insight into both the day-to-day and the long-term strategic activities of the City.

Internal Audit uses these meetings to help build our Internal Audit Work Plan and to gain feedback from our stakeholders which allows us to address issues on a more real-time basis, where it makes sense to do so.

## **Future Planning**

As the pandemic risk environment evolved, it became clear that our previous audit plan needed to be adjusted to more closely align with this new risk environment and the City's strategic plans going forward. In 2020, we began to develop audit programs for such areas as:

- Business Continuity Management
- Capital Project Management
- Supply Chain Management
- Contract Management Process
- Health and Safety Process Changes
- IT Cybersecurity and General Controls
- Return to Work Process Changes
- Management Monitoring Processes

As we move forward in 2021, these audit areas will be further developed as part of our goal to build an inventory of audit programs and will be added to our Audit Plan going forward into 2022-2024.

### **Data Analytics Pilot Project**

Internal Audit has begun investigating opportunities to utilize advanced financial analytics through a third-party provider. The program is meant to provide insight into vast amounts of financial (general ledger) data and to identify "high-risk" areas for further investigation. This kind of analysis is not possible through traditional sampling techniques. In doing so, we begin to develop an objective and sustainable program that can start to drive decision making and provide enhanced controls to identify potential fraudulent transactions and process gaps.

We have tentatively scheduled this activity as a "pilot project" for 2021 to ascertain the value derived from it and the logistics of sustaining the project going forward.

### **Program Review Framework Development**

As our understanding of the City and its processes has grown over the year, we realized that in order to better align our department it only makes sense that we incorporate the Future Ready Strategic Plan and related action items as part of our Audit Plan going forward.

We have proposed that our Audit Plan in 2022 utilize the Strategic Plan pillars and the related action items to build a defined process for audit area selection. These audits could be some combination of; operational, strategic, value for money and compliance. For example, we may choose to do a review of our Fleet Operations "program", which may combine elements listed above. These reviews would be completed through the use of an outside consultant, with primary oversight by Internal Audit.

As we move forward in 2021, Internal Audit has planned update meetings with our Executive Team to outline what this new framework could or should look like. The high-level objectives of these reviews would be to answer the following questions:

1. Are appropriate results being achieved? Is this an effective program?
2. Are we achieving results in an efficient manner? Are we getting good value for the money invested?
3. Are the associated risks managed effectively? Is there a process in place to identify risks and are there control systems and processes in place to assist us in mitigating risks in an efficient manner?

Internal Audit and the department in question would jointly develop the more detailed scope and objectives. We would then issue an RFP to select the review consultant. At the conclusion of the review, Internal Audit would issue a summary report to the Audit Committee and attach the consultant report as part of the reporting package.

The recommendations that flow from these reports could also be supported by our Continuous Improvement Group to assist departments with the implementation activities required.

#### Control Consultations

Internal Audit's role, in addition to that of compliance, can include consulting engagements. Consulting engagements allow internal auditors to play more of an advisory role than traditional compliance engagements, whose primary purpose is to provide an opinion on whether or not organizations goals are being accomplished using an agreed upon set of standards. The caveat for doing these types of engagements is to ensure that the Internal Audit function remains independent of management functions. That is, while Internal Audit gives advice and recommendations of possible appropriate actions, management performs implementation.

In 2020, Internal Audit provided advice to assist senior management in evaluating options for control testing at Our Energy Guelph in 2021. Internal Audit also provided advice to Clerks regarding records retention policies.

Lastly, Internal Audit performed a high-level financial review of the budget submission from The Elliott and have provided recommendations to assist Public Services and Finance in appropriate go-forward measures.

#### Compliance and Process Audits

Three compliance/process audits were completed in 2020, namely, the Employee Expense Process Audit, Fleet Inventory Audit and the Driver Certification Program (DCP) Audit for Guelph Transit. With the exception of the DCP Audit, the results of these audits have been reported to senior management and the Audit Committee. The DCP Audit (Transit) will be reported as an information report in February 2021. We're currently in progress on a second DCP Audit for Operations, with completion expected in Q1 2021 and will likely go as an information report as well.

Currently, we are in progress on three compliance audits; the annual Cash Handling Audit (Recreational Facilities), the Payroll Follow-Up Audit, and the DCP for Operations audit.

#### Status Report on Outstanding Audit Recommendations

As per our Internal Audit Quarterly Status Report Procedure, we would normally issue three updates to the Audit Committee and/or Council per year. However,

because of the pandemic and our emergency leave situation, we were only able to issue one update to the Audit Committee in 2020.

In general, the completion rate is quite good at approximately 89% of audit recommendations implemented by management. We would, however, like to see some more progress on the recommendations that are being held up by future systems implementation, and will be following up with those stakeholders to provide more detail to the Audit Committee by the end of 2021.

### **Financial Implications**

N/A

### **Consultations**

The Executive Team has been consulted and supports the proposed activities going forward.

### **Strategic Plan Alignment**

The 2021 Internal Audit work plan supports the Strategic Plan – Working Together for our Future pillar. Through projects identified, Internal Audit will utilize a systematic and disciplined approach to evaluate and improve the effectiveness and efficiency of the City's governance, risk management and internal controls.

### **Attachments**

Attachment-1 2021 Internal Audit Work Plan

Attachment-2 Long Term Audit Plan 2022-2024

Attachment-3 Internal Audit Independence Confirmation

### **Report Author**

Karl Hutchinson, General Manager Internal Audit

### **This report was approved by:**

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### **This report was recommended by:**

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