

Staff Report

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| To | Committee of the Whole |
| Service Area | Office of the Chief Administrative Officer |
| Date | Tuesday, March 5, 2024 |
| Subject | Internal Audit Work Plan 2024–2026 |

Recommendation

1. That the report titled 'Internal Audit Work Plan 2024–2026' dated March 5, 2024, be approved.
 2. That the Internal Audit Charter Update dated March 5, 2024, be received.
 3. That the Value-for-Money Audit Review Framework be approved.
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Executive Summary

Purpose of Report

To provide the Committee of the Whole—Audit with details regarding the 2024 Internal Audit work plan as well as the 2023 work plan status update, an update to the Internal Audit Charter and the proposed value-for-money audit framework.

Key Findings

- Consistent with prior years, the 2024 work plan was developed considering factors including a risk assessment completed by Internal Audit, feedback from management and members of Council, consideration of emerging trends affecting municipalities and previous audit results.
- The work plan's objective is to assist management and Council in achieving the City's strategic and operational goals and objectives.
- The work plan complies with the City of Guelph's internal audit charter and supports the City's Strategic Plan.
- The work plan may be modified during the year as required.
- All internal audit activity is performed in an independent and objective manner.
- All the approved projects were completed in 2023, with one project in progress as of the report date, and ongoing work being completed on the implementation of an Enterprise Risk Management framework. All recommendations made during audit executions were agreed upon by management who provided action plans to address the recommendations.
- The Audit Charter outlines the authority, roles and responsibilities of the Internal Auditor and staff at the City of Guelph. It describes how the Internal Audit department will provide value to the City of Guelph, the nature of the services it will provide and the specific focus or emphasis required to help the City achieve

its objectives. In addition, it also establishes the head of internal audit reporting lines, authorizing access to records, personnel and scope of the department.

- As directed by Council through the multi-year budget process, a value-for-money audit framework has been developed. This framework will guide the execution of two reviews in 2024.

Strategic Plan Alignment

The 2024 Internal Audit work plan supports the Foundations theme and corresponding Lead with accountability objective. 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.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Lead with accountability

Financial Implications

Implementation of audit recommendations could have financial implications, leading to a more effective governance, risk management and internal control environment.

Report

The work plan was developed using a risk-based methodology approach. It complies with the City of Guelph's internal audit charter mandate and supports the City's Strategic Plan.

The 2024 work plan (Attachment-1) sets out the priorities of the Internal Audit department. These priorities are reflective of the City of Guelph's objectives, the Strategic Plan priorities, and are integrated and coordinated with the risk assessment performed by Internal Audit. The specific scope of each project will be determined during the project's planning phase.

Summarized below are several factors considered in developing the work plan:

- Internal Audit risk assessment results;
- The last time an area/process was audited;
- Results of previous audits;
- Consideration requests from management and members of Council;
- Strength of the internal control environment; and
- Emerging trends.

The annual work plan may be adjusted throughout the year as other issues or concerns are identified.

The work plan (Attachment-1) is based on the availability of two full-time auditors for the full year. The plan will need to be adjusted if adequate resources are not available throughout the year.

The proposed 2025 and 2026 work plan (Attachment-2) has been updated based on the same factors described above in developing the current year work plan.

Internal audit activities will be conducted in compliance with the International Standards for the Professional Practice of Internal Auditing.

An internal audit charter is required as part of the International Standards for the Professional Practice of Internal Auditing. The head of the Internal Audit department is responsible for drafting and updating the charter. The Charter should be reviewed and updated periodically, at least every four years to ensure that it remains relevant to the needs of the City.

As directed by Council through the multi-year budget process, a value-for-money audit framework has been developed. This framework will guide the execution of up to two reviews in 2024. The value-for-money framework was developed through discussions with other municipalities that have implemented these types of reviews, to capture best practices. Information was also gathered from various Auditor General offices throughout Canada as part of developing the framework.

With Council's acceptance of this framework, Internal Audit—working with the support of other departments, will determine suitable projects to begin the review phase. Project selection will be based on factors such as departmental budget size with a focus on discretionary non-legislated services, value to citizens where a review would have significance, availability of performance data (KPIs, benchmarking, survey results, etc.) and departmental readiness to undertake a review.

2023 Activity Summary:

The 2023 work plan included five scheduled audits. As of year-end, four of the audits were completed. The review of recruitment, hiring and retention practices within Human Resources was substantially completed as of December 2023 with an information report issued in February 2024. In addition, development work on the multi-year Enterprise Risk Management framework strategic initiative was advanced and will continue throughout 2024. During the year, an update on the status of the implementation of opportunities identified through the service rationalization review was completed and was reported to Council.

All audit recommendations made in the completed audit reports have been accepted by management. The status of all outstanding recommendations made through the completed audits was reported three times during 2023 with favourable results in management's continued efforts to implement recommendations to improve the overall control environment. In addition to the projects identified in the 2023 work plan, two consulting projects were completed during the year.

As part of Internal Audit's goal of continuous improvement, Internal Audit utilizes a client survey at the end of each completed audit project to receive feedback. The feedback received is used to identify opportunities to enhance the internal audit process. In 2023, four surveys were issued. The client satisfaction rate, based on the feedback, was 98 per cent versus a target of 85 per cent.

Financial Implications

Implementation of audit recommendations could have financial implications, leading to a more effective governance, risk management and internal control environment.

Consultations and Engagement

The Executive Team was consulted and supports the proposed work plan.

Attachments

Attachment-1 Internal Audit Work Plan 2024

Attachment-2 Long Term Audit Plan Proposed Projects for 2025–2026

Attachment-3 Internal Audit Work Plan 2023 Status

Attachment-4 Internal Audit Charter

Attachment-5 Value-for-Money Review Framework

Departmental Approval

None.

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2024 Internal Audit Work Plan

Table 1, Internal Audit Work Plan 2024

| Name of Project | Type of Audit |
|--|--|
| Value-for-Money Reviews To assess the economy, effectiveness and efficiency of two departmental units. The objective of these reviews is to provide an overview of the unit's work and enable Council to understand and assess the value to the community for the services provided. | Operational and Value-for-Money Review |
| Enterprise Risk Management Framework Implementation Implement an Enterprise Risk Management program to identify and manage risks at an enterprise level. This has been identified as a strategic initiative. | Consulting |
| Driver Certification Program Compliance Audit-Fleet Operations To assess compliance to the Ministry of Transportation criteria. Implement an Enterprise Risk Management program to identify and manage risks at an enterprise level. This has been identified as a strategic initiative. | Compliance |
| Driver Certification Program Compliance Audit-Transit To assess compliance to the Ministry of Transportation criteria. | Compliance |
| Status Report on Outstanding Audit Recommendations Provide an update to the Audit Committee on management's implementation status of recommendations agreed upon by staff. | Ongoing Reporting |

Long Term Audit Plan

Proposed Projects for 2025–2026

Internal Audit has identified potential projects (listed in the table below) that may be performed in 2025 and beyond. The list is based on the current risk assessment results and requests from management and members of Council. These projects may be revised based on updated risk results, previous audit results, emerging trends and/or any new projects that are identified during the period.

Table 2, Proposed Projects for 2025–2026

| Name of Project | Service Area | Department |
|---|--|---|
| Value-for-Money Reviews | TBD | TBD |
| Use of Consultants Policy and Practices Review | Office of the Chief Administrative Officer Corporate Services Public Services Infrastructure, Development and Environment | TBD |
| Fleet Maintenance | Public Services | Operations Transit Fire |
| Enterprise Business Continuity | Public Services | Operations— Corporate and Community Safety |
| Tree Bylaw Enforcement and Inspection Processes | Infrastructure, Development and Environment Public Services | Planning and Building Services Operations Parks |
| Information Technology User Access Management | Corporate Services | Information Technology |
| Freedom of Information and Privacy Review | Corporate Services | Clerks |
| Community Improvement Plan Grant Program | Office of the Chief Administrative Officer | Economic Development and Tourism |

| Name of Project | Service Area | Department |
|--|---|------------------------|
| Solid Waste Resource Money Handling Audit | Infrastructure, Development and Environment | Environmental Services |
| Information Technology Cybersecurity | Corporate Services | Information Technology |
| Employee Expense System Post Implementation Review | Corporate Services | Finance |

2023 Internal Audit Work Plan Status

As of December 2023

Table 3, 2023 Internal Audit Work Plan Status

| Name of Project | Type of Audit | Status |
|---|-----------------------------------|--|
| Recruitment, Hiring and Retention Practices Perform an operational review of recruiting, hiring and retention processes to assess the effectiveness and efficiency of processes as well as the adherence to policies, procedures and legislation. | Operational | In progress—information report to Council in February 2024 |
| Water Meter Replacement Program Perform an operational review to assess the economy, effectiveness and efficiency of the water meter replacement program objectives and assess operational practices associated with the outsourced program. | Operational | Complete |
| Accessibility Legislation Compliance Review Perform an operational review of accessibility processes to assess the effectiveness and efficiency, and adherence to policies, procedures and legislation. | Operational and Compliance Review | Complete |
| Status of Service Rationalization Review Opportunities Implementation Provide an update to the Audit Committee on management's implementation of opportunities identified in the consultant report. | Reporting | Complete |
| Enterprise Risk Management Framework Implementation Develop an Enterprise Risk Management program to identify and manage risks aligning with internal audit risk assessments. | Consulting | Ongoing—multi-year initiative |
| Driver Certification Program Compliance Audit-Transit Operations To assess compliance to the Ministry of Transportation criteria. | Compliance | Complete |
| Status Report on Outstanding Audit Recommendations Provides an update to Council on management's implementation status of recommendations agreed upon by staff. | Not applicable | Three reports complete |



CITY OF GUELPH INTERNAL AUDIT CHARTER

MISSION AND VISION

To provide independent and objective assurance and consulting services designed to add value to help enhance the operations of the City. Internal Audit assists the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal controls.

VALUES AND PRINCIPLES

In carrying out assurance and consulting activities, Internal Audit values and promotes:

- Integrity
- Objectivity
- Confidentiality
- Competency
- Professionalism
- Transparency
- Continuous Improvement

DEFINITIONS

- **Audit Committee:** Consists of all members of the Committee of the Whole. The roles and responsibilities of the Audit Committee are included as part of the Committee of the Whole Terms of Reference.
- **City-related Boards:** As defined by the City of Guelph.
- **Special Project:** Any project added to the approved annual audit work plan.
- **Employee:** Is defined as any employee of the City including those on contract and volunteers.
- **Internal Auditor:** Head of the Internal Audit Department

SCOPE OF WORK

Scope of work includes but is not limited to:

- The examination and evaluation of the adequacy and effectiveness of the City's governance, risk management and internal control systems; reviewing and evaluating compliance to policies, procedures, laws and regulations; assessing the reliability and integrity of information and the safeguarding of assets;
- Types of assurance services include but are not limited to compliance, operational, financial, forensic, technology, value-for-money and internal control audits;
- Providing advice to management with respect to conducting risk assessments;
- Providing consulting services related to internal controls, governance and risk management as requested by management to assist in areas such as the

implementation of a new or revised service or system implementation/upgrade;
and

- Conducting special investigations as needed.

AUTHORITY

The Internal Auditor has the authority to conduct financial, operational, compliance and information systems audits as well as other special audits, reviews and investigations of all City departments, Mayor and Council offices and City-related boards.

The Internal Auditor—with strict accountability for confidentiality and safeguarding records and information—has full, free and unrestricted access to all activities, records, physical properties and personnel necessary in carrying out any engagement.

It is the duty of any employee of the City or City-related board having control of such records to permit the Internal Auditor or designate access and examination when requested subject to applicable legislation. Any employee of the City or related board must also fully co-operate with and make full disclosure of all pertinent information to the Internal Auditor or authorized, designated individual.

STANDARDS OF AUDIT PRACTICE

The internal audit activity governs itself by conforming to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing, as well as the City's relevant policies and procedures as well as the Internal Audit Procedure Manual.

INDEPENDENCE AND OBJECTIVITY

The Internal Auditor has unrestricted access to the Chairs of the Audit Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management, internal control and governance activities may be reported.

All internal audit activities shall remain free of influence by any element of the City including matters of audit selection, scope, procedures, frequency, timing or report content to ensure auditors maintain their independence and objectivity.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. They shall not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Audit's judgement.

REPORTING RELATIONSHIP

The Internal Auditor in the discharge of their duties shall be administratively accountable to the Chief Administrative Officer and functionally responsible to the Audit Committee.

The Internal Auditor will provide a copy of all completed audit reports to the Chief Administrative Officer.

The Deputy Chief Administrative Officers will provide the Internal Auditor with an action plan to address each recommendation before finalizing a report.

RESPONSIBILITIES OF THE INTERNAL AUDITOR

1. Responsible for all internal auditing activities within City departments and related boards including:
 - a. Providing independent, objective assurance and consulting activity designed to add value and improve the City's operations;
 - b. Helping the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes; and
 - c. Ensuring the management and coordination of fraud investigation activities within City departments.
2. Responsible for maintaining a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter;
3. Implementing the annual work plan approved by Council. If a special project is added to the work plan, the Internal Auditor will update the Audit Committee as to the impact on the annual work plan schedule;
4. Ensuring all internal audit activity performed conforms with the International Standards for the Professional Practice of Internal Auditing (ISACA) and guidelines and procedures of ISACA for information systems;
5. The Internal Auditor will meet with the Audit Chairs at least twice per year;
6. Through the Audit Committee, communicating to Council, the audit results and the status of the operating department's progress in implementing recommendations;
7. Providing all audit reports to the Chief Administrative Officer and the Executive Team with the necessary recommendations to maintain the highest standards of stewardship and due diligence over corporate assets, processes and public funds;
8. Updating the Audit Committee and the Executive Team on emerging trends;
9. Providing management with impartial and objective advice related to governance, internal controls and risk management issues;
10. Meeting with the External Auditor throughout the year as needed;
11. Maintaining an Internal Audit department quality assurance program; and
12. Confirming to the Audit Committee at least annually the organizational independence of the Internal Audit activity.

ANNUAL INTERNAL AUDIT WORK PLAN

The Internal Auditor will submit to the Audit Committee for review and approval a three-year risk-based work plan that sets out the priorities of the internal audit function that are reflective of the City's objectives, concerns and priorities; integrated and coordinated with the corporate risk assessment and strategic planning process. Input from the Executive Team will be considered when developing the audit work plan.

FOLLOW-UP MONITORING AND REPORTING

The Internal Auditor will be responsible for appropriate follow-up on audit recommendations to determine the nature and extent of action taken by management on agreed-upon recommendations and will report the results to the Audit Committee annually.

Value-for-Money Review Framework

Introduction

A value-for-money audit is an independent, objective and systematic assessment of how well the City is managing its activities, responsibilities and resources. Value-for-money audits are planned, performed and reported according to professional standards for assurance engagements.

Value-for-money audits seek to determine whether departments are delivering programs or carrying out activities and processes with due regard to one or more of the principles of economy, efficiency and effectiveness.

The principles of economy, efficiency and effectiveness are defined as follows:

- The principle of economy involves obtaining the right inputs, such as goods, services and human resources, at the lowest cost.
- Efficiency involves getting the most from available resources, in terms of quantity, quality and timing of outputs or outcomes.
- The principle of effectiveness involves meeting the objectives set and achieving the intended results.

Review Objectives

The objective of these reviews is to provide an overview of the unit's work and enable Council to understand and assess the value to the community for the services provided. The reviews will focus on business units instead of whole departments or services given the size and scope of the departments. The selection of reviewed units or subunits will align to reported budgets so that financial data can be readily pulled for the audit. Where needed, subject-area experts will be used to provide more meaningful analysis and recommendations for improvement.

The review will address the following questions:

- Why does the City provide a service? Is the service discretionary—and what would be the consequences if the City did not provide the service?
- Are there any other organizations (public or private) in the community that could offer the service instead of the City?
- Why does the City provide the current scope and level of services—and what would the consequences be if these were to change (increase or decrease)?
- Are services provided efficiently, by industry standards, and are there best practices or other suggestions for improvement that could apply to the City?
- Are services effective (in terms of achieving desired results) by industry standards, and are there best practices or suggestions for improvement that could apply?
- How is the service funded, and are funding sources appropriate and sustainable?

The value-for-money reviews will be undertaken annually, on a rotating basis, and will include but are not limited to the following:

- A business plan overview including listing and describing services delivered within the scope of the unit under review.
- Budget and variance reports for the unit for the past five years.
- Satisfaction survey results.

- Other performance metrics that may be available for the services provided by the unit.
- A review of comparator data available through external surveys and studies.

The results of the reviews will be used to identify options, provide recommendations to Council and address:

- Are there changes to services (including service type, scope and level) that would achieve greater results within currently available resources?
- Are there changes to the current method of delivering services that would improve the cost-effectiveness of the service?

Expected Outcomes

The outcomes of value-for-money audits can vary depending on the context, departmental organization and the specific focus of the audit. However, some common outcomes include:

- **Identification of Inefficiencies:** value-for-money audits often reveal inefficiencies in the use of resources. This could include instances where resources are not being used optimally, there is duplication of effort or there is unnecessary expenditure.
- **Cost Savings:** One of the primary objectives of value-for-money audits is to identify opportunities for cost savings. By uncovering inefficiencies or areas where resources are not well-utilized, auditors can recommend changes that lead to cost reductions.
- **Improved Effectiveness:** Value-for-money audits assess whether the organization is achieving its objectives in the most effective way possible. The outcomes may include recommendations for improving processes, reallocating resources or adopting best practices to enhance overall effectiveness.
- **Enhanced Accountability:** Value-for-money audits contribute to increased accountability within organizations. By examining how resources are managed and results are achieved, the review will help to ensure that responsible parties are held accountable for their stewardship of resources.
- **Risk Mitigation:** Audits often identify potential risks in the use of resources. Whether it is financial risks, operational risks or risks related to achieving outcomes, the audit outcomes may include recommendations for mitigating these risks to ensure better value-for-money.
- **Increased Transparency:** Value-for-money audits promote transparency by providing stakeholders with a clear understanding of how resources are used and whether the intended outcomes are being achieved. This increased transparency can foster public trust and confidence.
- **Policy and Process Improvements:** The audit process may lead to recommendations for improvements in policies and processes. This could involve changes in procurement procedures, budgeting practices or other internal controls to enhance the overall efficiency and effectiveness of resource use.
- **Documentation of Best Practices:** In addition to identifying areas for improvement, value-for-money audits may also highlight instances where the organization is already employing best practices. Recognizing and documenting these practices can serve as a guide for other parts of the organization or other entities facing similar challenges.

Project Selection

Reviews will be selected from a variety of potential inputs including budget engagement work, citizen satisfaction survey results, departmental key performance indicator (KPI) results as measured by both strategic and business plan objectives, service rationalization recommendations and projects nominated by either the leadership teams or Council and vetted for suitability by Internal Audit.

Value-for-Money Framework Details

An internal audit framework for a value-for-money audit outlines the key elements and steps involved in conducting an audit to assess the economy, efficiency and effectiveness of an organization's activities.

Preliminary Planning

- a. Define the scope and objectives of the value-for-money audit.
- b. Identify key stakeholders and their expectations.
- c. Establish a timeline and resource plan for the audit.
- d. Conduct a risk assessment to prioritize areas with the highest impact.

Understanding the Organization

- a. Review the mission, vision and strategic objectives of the department under review.
- b. Analyze the organizational structure and reporting relationships within the unit.
- c. Understand the key deliverables, services and processes of the unit being reviewed.

Criteria and Standards

- a. Identify relevant criteria and standards (legislative requirements, internal bylaws, policies, procedures and guidelines) against which value-for-money components will be assessed.
- b. Consider comparator best practices, benchmarks and regulatory requirements.

Data Collection

- a. Gather financial data, including budgets, expenditures and revenue streams.
- b. Collect operational data, such as process documentation, strategic and operational performance metrics and KPIs.
- c. Review associated records such as procurement documents, contracts and vendor performance.

Risk Assessment

- a. Identify and assess risks related to the economy, efficiency and effectiveness of departmental activities being reviewed.
- b. Prioritize risks based on their potential impact on the value-for-money elements being reviewed.

Data Analysis

- a. Analyze financial and operational data to identify trends and anomalies.

- b. Benchmark the organization's performance against both private industry standards and comparator peers.
- c. Assess if any cost control measures have been recently undertaken and evaluate their effectiveness.

Fieldwork

- a. Conduct interviews with key personnel involved in budgeting, procurement and operations.
- b. Perform on-site visits to assess the efficiency of key processes.
- c. Review documentation related to internal controls and compliance.
- d. Engage an external consultant if required to assist with identifying options for improvements.

Reporting

- a. Prepare a draft audit report including an executive summary; scope, objectives, and methodology; findings and observations; recommendations for improvement; management responses and action plans.
- b. Share the draft report with relevant stakeholders for feedback.

Finalization

- a. Incorporate feedback from stakeholders into the final report.
- b. Obtain feedback from the executive team for the final report.
- c. Present the final report to Council.

Follow-Up

- a. Monitor the implementation of management action plans.
- b. Conduct follow-up audits to assess the effectiveness of corrective actions.

Continuous Improvement

- a. Review the value-for-money audit process for lessons learned and areas of improvement.
- b. Update the audit framework based on changes in the organization's structure or the regulatory environment.

This framework provides a systematic approach to conducting a value-for-money audit, ensuring thorough assessment and actionable recommendations for improving the organization's efficiency and effectiveness.