



Agenda
Audit Committee

January 26, 2023
Immediately Following Regional Council
Electronic Meeting

Quorum: 5

Page No.

A. Call to Order

B. Election of Chair

C. Election of Vice Chair

D. Disclosures of Interest

E. Presentations

E.1 Audit Committee Orientation

Michelle Morris, Director of Audit Services and Jason Li, Director of
Controllershship Office and Deputy Treasurer

E.2 KPMG Audit Planning Report

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Maria Khoushnood, KPMG LLP

F. Communications

None

G. Reports

G.1 Audit Services Branch Report

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Report dated January 26, 2023 from the Director of Audit Services
recommending that:

1. Council receive this report for information.

G.2 2022 Quality Assessment Results

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Report dated January 26, 2023 from the Director of Audit Services recommending that:

1. Council receive this report for information.

G.3 2023 Risk Based Work Plan

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Report dated January 26, 2023 from the Director of Audit Services recommending that:

1. Regional Council approve the Audit Services Branch's 2023 Risk-Based Work Plan (Attachment 1).

H. Other Business

I. Private Session

None

J. Adjournment



The Regional Municipality of York

**Audit Planning Report
for the year ending
December 31, 2022**

KPMG LLP

Licenced Public Accountants

November 11, 2022



KPMG contacts

Key contacts in connection with this engagement



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Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.



Click on any item in the table of contents to navigate to that section.

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This report to the Audit Committee is intended solely for the information and use of management, the Audit Committee, and the board of directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit Quality: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

‘Perform quality engagements’ sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define **‘audit quality’** as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity**.



Doing the right thing. Always.

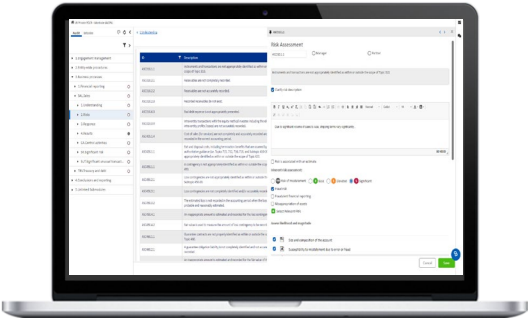




Our audit platform – KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We’ve committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

KPMG Clara workflow



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A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

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Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

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Highlights

Scope of the audit

Our audit of the consolidated financial statements (“financial statements”) of The Regional Municipality of York (“the Region”) as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards (CASs).



Significant risks



We have identified significant risks of material misstatement for the audit. See significant risks section for details.

Required communications

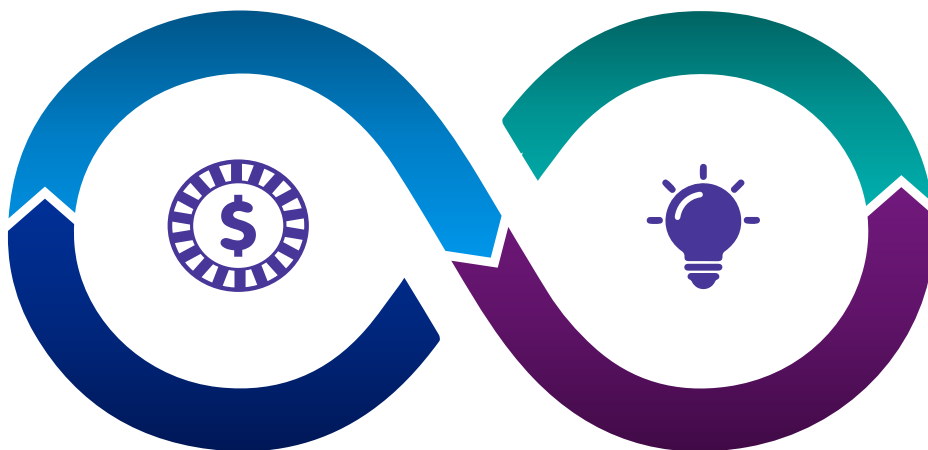


See Appendix: Other required communications





Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

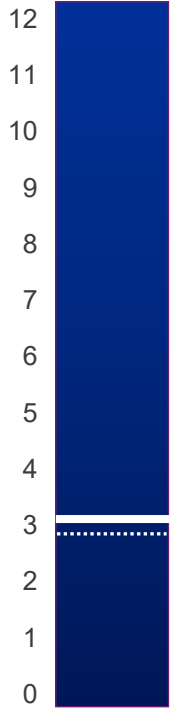
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality



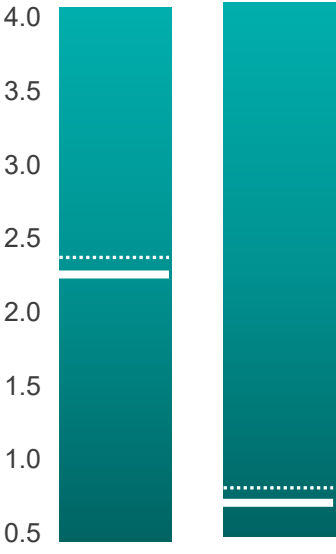
..... Prior year
— Current year

% **Benchmark**



**Budgeted full
accrual PSAS
expenditures**

% **Other Relevant Metrics**



**2022 budgeted
revenues**

**Prior year net
assets**

Budgeted full accrual PSAS expenditures

\$2,443,400,000
(2021: \$2,425,000,000)

2022 budgeted revenues

\$3,182,100,000
(2021: \$2,998,100,000)

Prior year net assets

\$9,299,642,000
(2021: \$8,628,846,000)



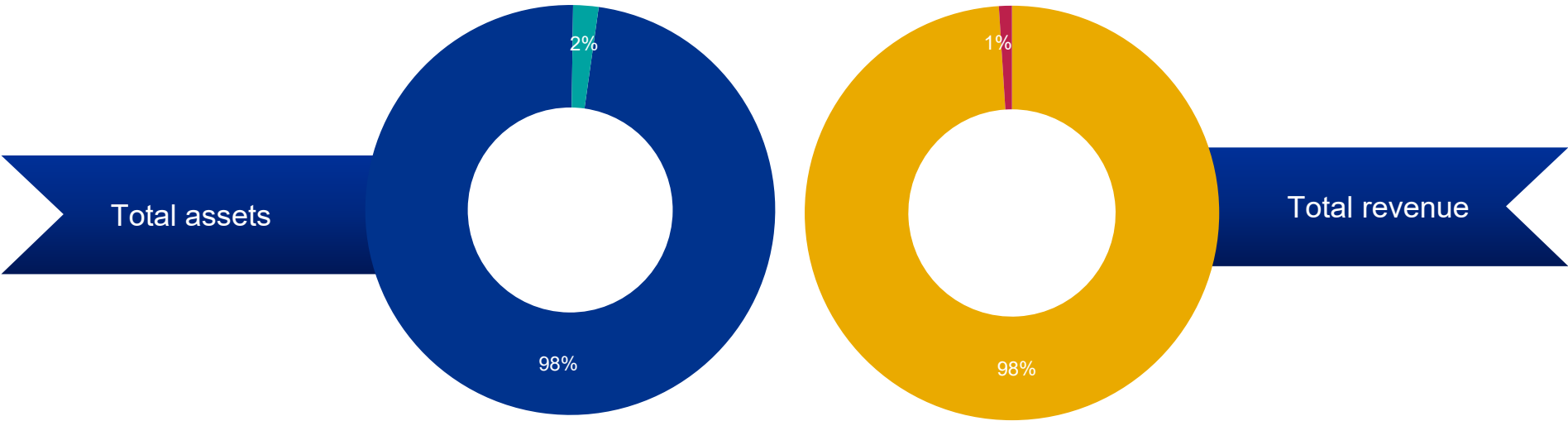
Involvement of others

Involved party	Nature and extent of planned involvement	Involvement In
External professionals with specialized skill or knowledge who are involved in performance of audit procedures	Nexus Actuarial Consultants Ltd. provides the actuarial valuation for the employee future benefits obligation.	Audit of financial statements

Group audit - Scoping

Breakdown by Audit Participants

Type of work performed	Total assets		Total revenue	
Total full-scope audits	98%		99%	
Total audit of one or more account balances and/or disclosures	0%		0%	
Total specified audit procedures	0%		0%	
Total: Full-scope audit, audit of account balance(s) and/or disclosure(s), specified audit procedures	98%		99%	
Excluded from direct testing	2%		1%	
Total consolidated	100%		100%	



Significant risks


<div><div></div><div>Presumption of the risk of fraud involving improper revenue recognition</div></div> <div><div>RISK OF</div><div></div><div>FRAUD</div></div>		
Estimate?	Significant risk	New or changed?
No	The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business, as well as management’s calculation of the deferred revenue – obligatory reserve funds.	No
Our audit approach		


Our audit methodology incorporates the required procedures in professional standards to address this risk.

Our audit approach consists of evaluating the design and implementation of selected relevant controls. We test journal entries that meet specific criteria. These criteria are designed during the planning phase of the audit and are based on areas and accounts that are susceptible to manipulation through management override and we design search filters that allow us to identify any unusual journal entries.

As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively test revenues (both recognized and amounts held as deferred at year end) and recalculate management’s calculation of deferred revenue – obligatory reserve funds through auditing management’s methodology.

Significant risks

 Management Override of Controls

RISK OF

FRAUD

	Why is it significant?	Audit approach
<p>Presumption of the risk of fraud resulting from management override of controls</p>	<p>Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.</p>	<p>As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:</p> <ul style="list-style-type: none">• testing of journal entries and other adjustments,• performing a retrospective review of estimates• evaluating the business rationale of significant unusual transactions.

Technologies

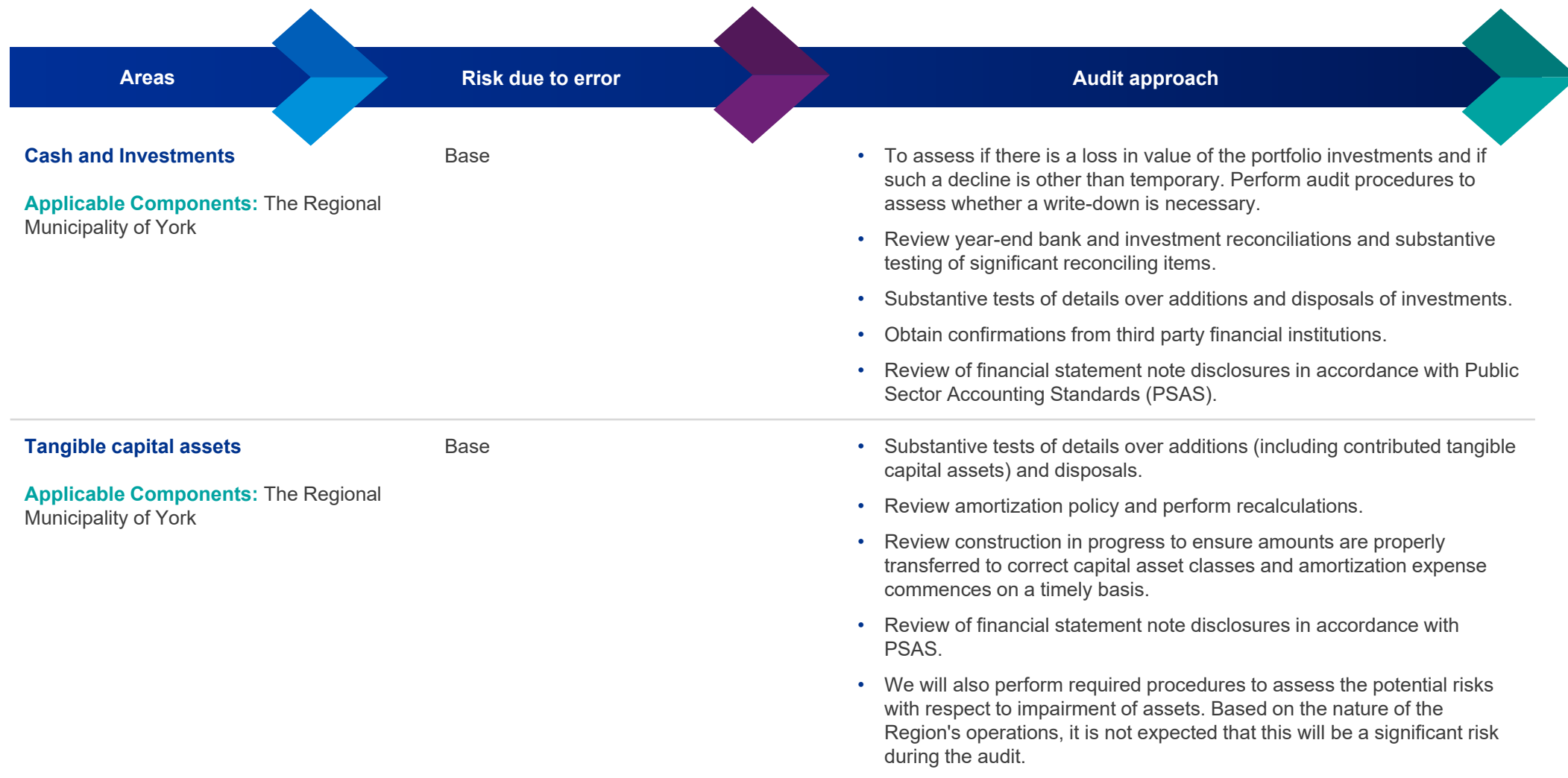
Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.



[Click to learn more](#)



Other areas of focus



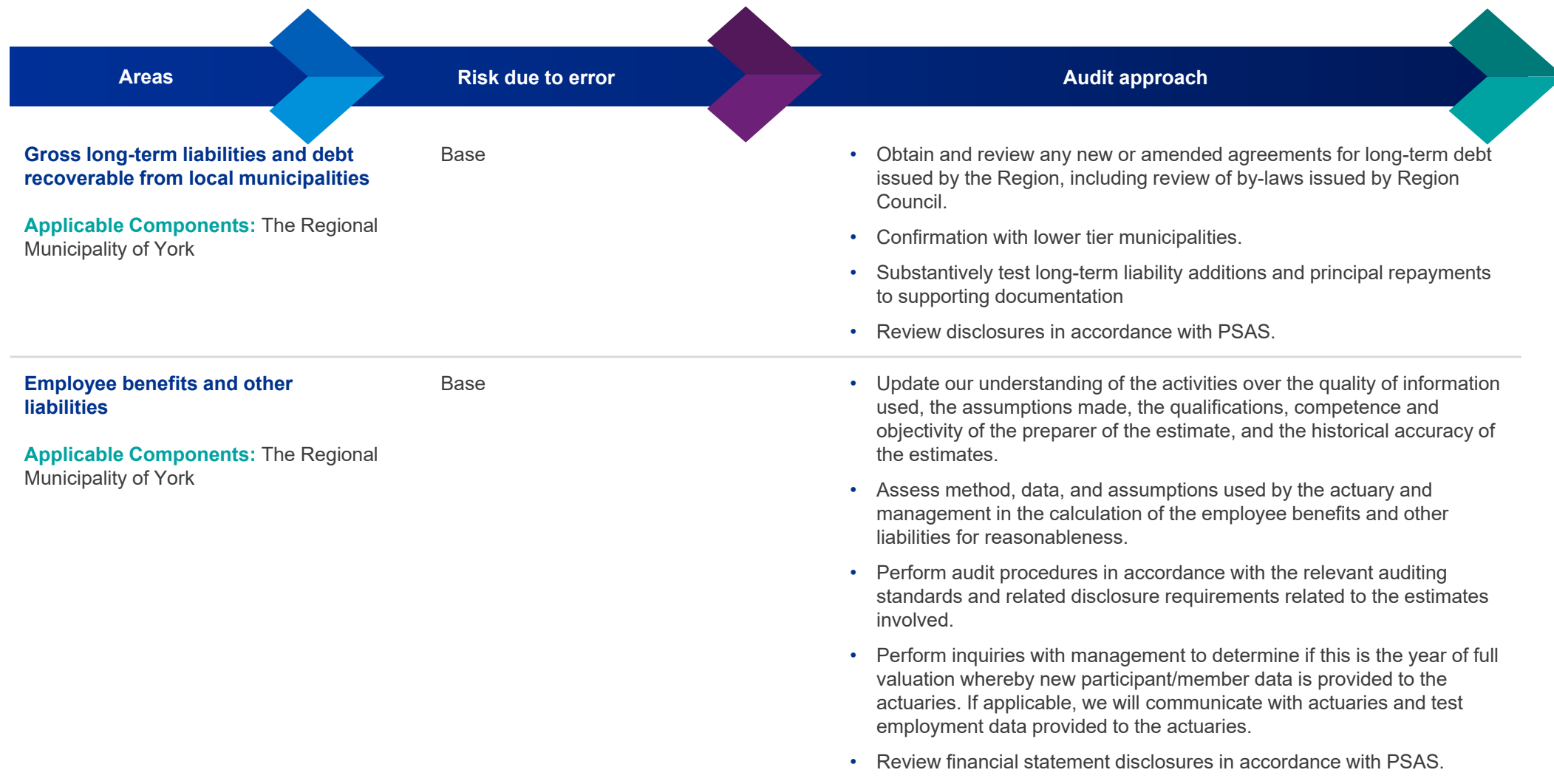


Other areas of focus

Areas	Risk due to error	Audit approach
Revenue and accounts receivable Applicable Components: The Regional Municipality of York	Base	<ul style="list-style-type: none"> Recalculate tax revenue using appropriate tax rates and assessment. Obtain confirmations from lower tier municipalities. Audit revenue transactions to supporting documentation on a sample basis to assess whether revenue recognition is appropriate. Review the continuity and tracking of previously deferred receipts, vouch additional cash receipts, and evaluate revenue recognition for amounts expended in the current year in relation to the funding under the Safe Restart Agreement. Audit a sample of significant accounts receivable balances by vouching to supporting documentation and assess analytical trends. Assess the valuation of receivables.
Deferred revenue – general and obligatory reserve funds Applicable Components: The Regional Municipality of York	Base	<ul style="list-style-type: none"> Update our understanding of the activities over the initiation, authorization, processing, recording and reporting. Review the Region-prepared calculation for the development charge balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve. Perform recalculation of interest allocation to assess reasonableness of management calculation. Audit a sample of deferred capital grants, security deposits and other deferred revenue by vouching to supporting documents. Inquire with management if there were any breaks given to developers, and perform audit procedures on the financial reporting impact, if relevant.

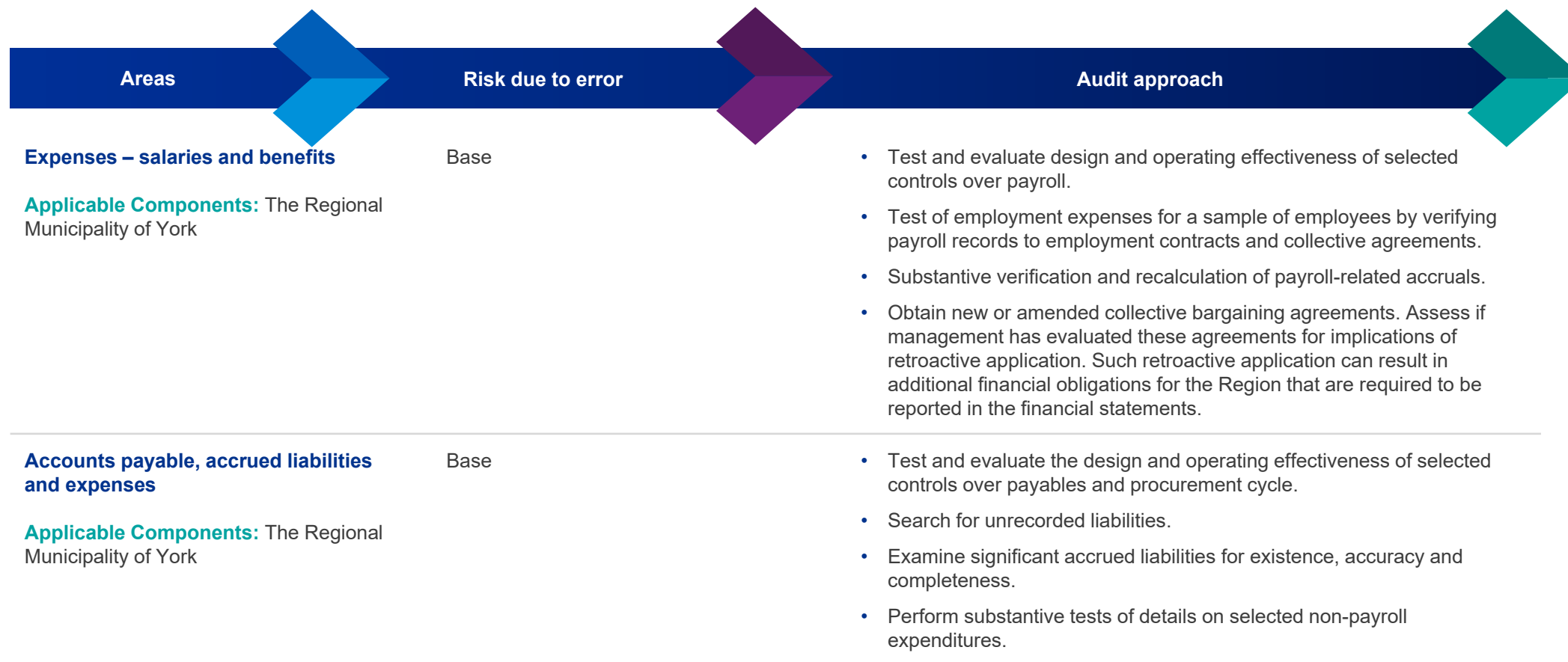


Other areas of focus



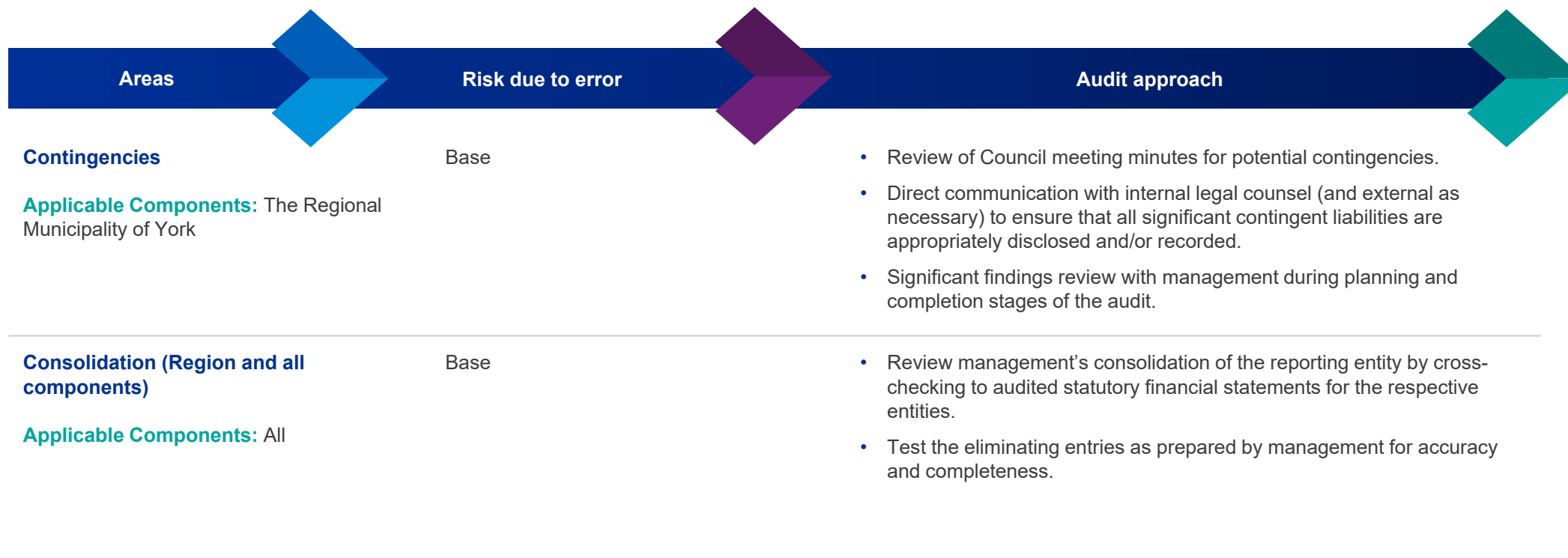


Other areas of focus

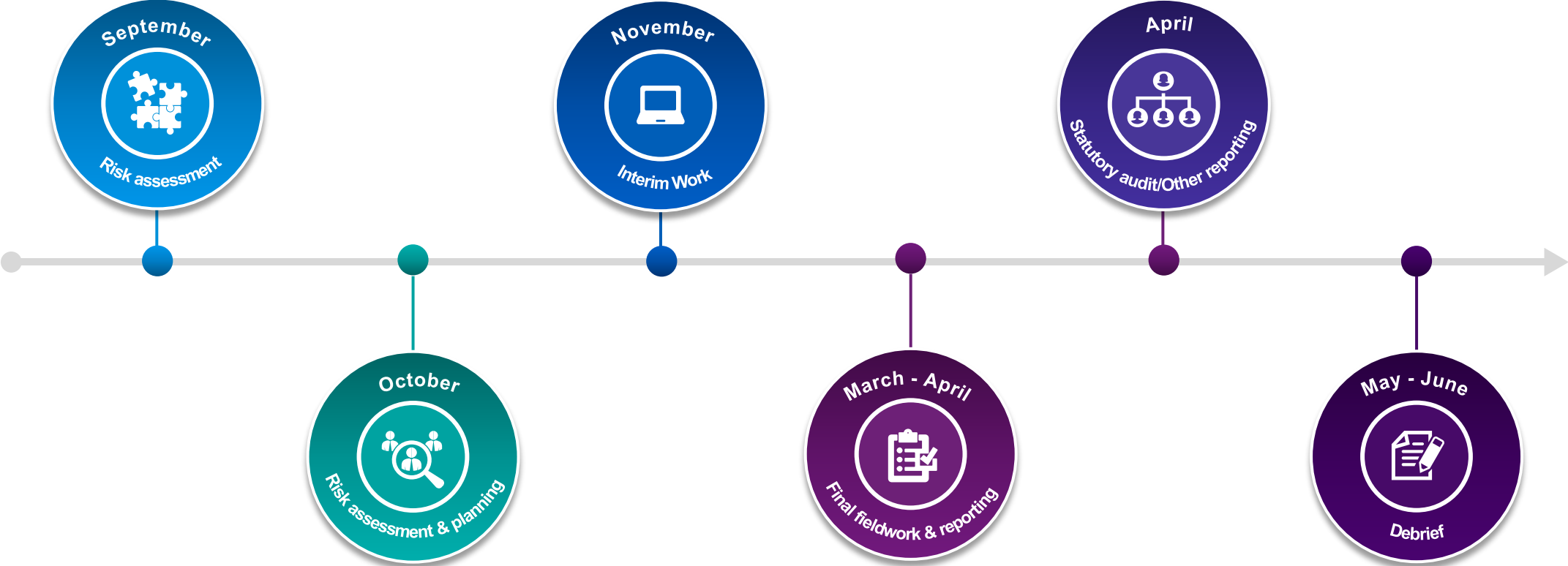




Other areas of focus



Key milestones and deliverables



Appendices



Other required communications



Newly effective auditing standards



Changes in accounting standards



Audit and assurance insights



Appendix: Other required communications



CPAB communication protocol

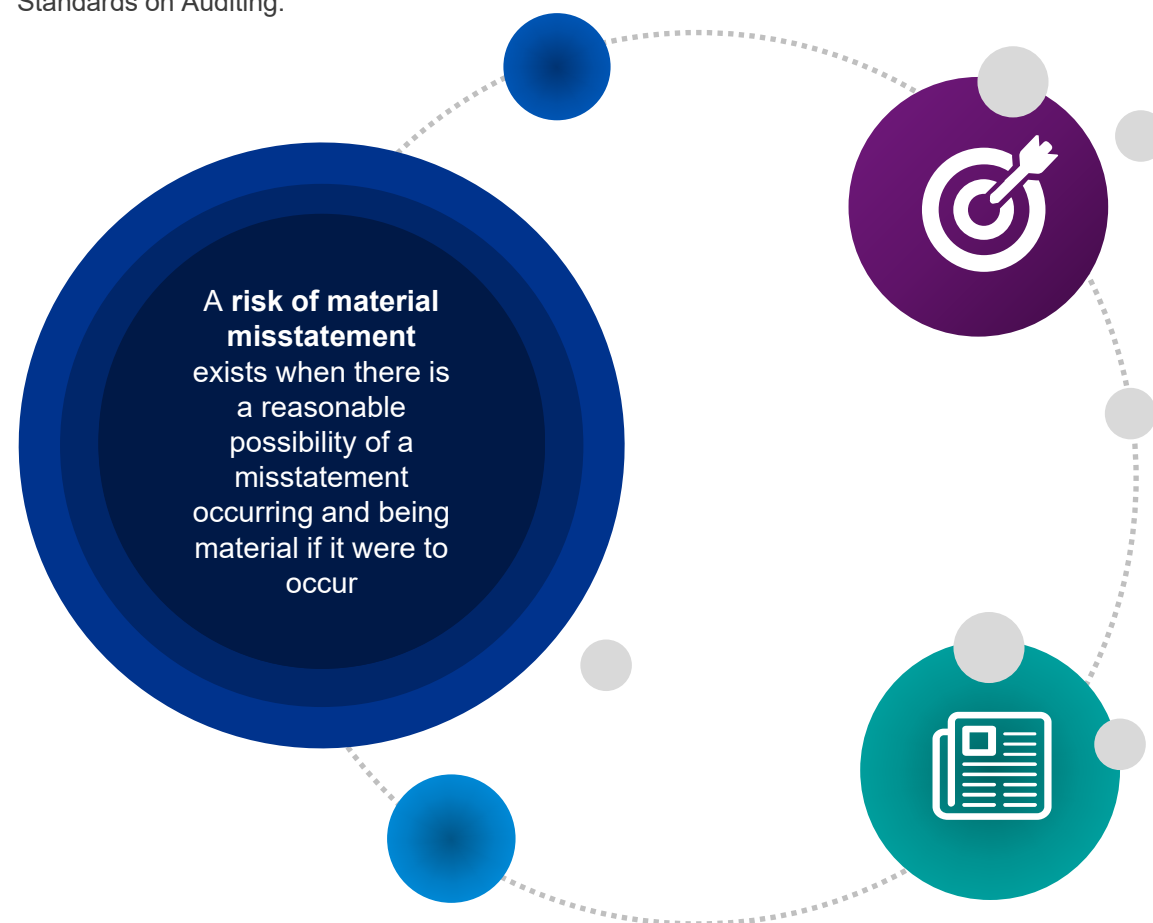
The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- The 2022 Annual Inspection Results will be available in March 2023



Appendix: Newly effective auditing standards

CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement* has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada



We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.



Appendix: Newly effective auditing standards

Key change

Overall, a more robust risk identification and assessment process, including:

- New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement
- New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement
- New requirement to separately assess inherent risk and control risk for each risk of material misstatement
- Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk

Impact on the audit team

When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.

We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement

The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.

If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.

Impact on management

If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.

We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.



Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement	When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquiries of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a ‘stand back’ at the end of the risk assessment process	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.



Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
<p>Modernized to recognize the evolving environment, including in relation to IT</p>	<p>New requirement to understand the extent to which the business model integrates the use of IT.</p> <p>When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.</p> <p>Based on the identified controls we plan to evaluate, we are required to identify the:</p> <ul style="list-style-type: none"> • IT applications and other aspects of the IT environment relevant to those controls • related risks arising from the use of IT and the entity's general IT controls that address them. <p>Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.</p>	<p>We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.</p> <p>Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.</p> <p>Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.</p>
<p>Enhanced requirements relating to exercising professional skepticism</p>	<p>New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.</p>	<p>We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquiries of management, the activities we observe or the accounting records we inspect.</p>



Appendix: Newly effective auditing standards

Key change

Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control

Impact on the audit team

We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows:

- Controls that address a significant risk.
- Controls over journal entries, including non-standard journal entries.
- Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures

Impact on management

We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them.

We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.



Appendix: Changes in accounting standards

Standard	Summary and implications
Asset retirement obligations	<ul style="list-style-type: none"> • The new standard PS 3280 <i>Asset retirement obligations</i> is effective for fiscal years beginning on or after April 1, 2022. • The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. • The asset retirement obligations (“ARO”) standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use. • As a result of the new standard, the public sector entity will: <ul style="list-style-type: none"> • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	<ul style="list-style-type: none"> The new standards PS 3450 <i>Financial instruments</i>, PS 2601 <i>Foreign currency translation</i>, PS 1201 <i>Financial statement presentation</i> and PS 3041 <i>Portfolio investments</i> are effective for fiscal years beginning on or after April 1, 2022. Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. Hedge accounting is not permitted. A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. PS 3450 <i>Financial instruments</i> was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	<ul style="list-style-type: none"> The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023. The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none"> • The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.
Public Private Partnerships	<ul style="list-style-type: none"> • The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> • The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.
Financial Statement Presentation	<ul style="list-style-type: none"> • The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted. • The proposed section includes the following: <ul style="list-style-type: none"> • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present total assets followed by total liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. • The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

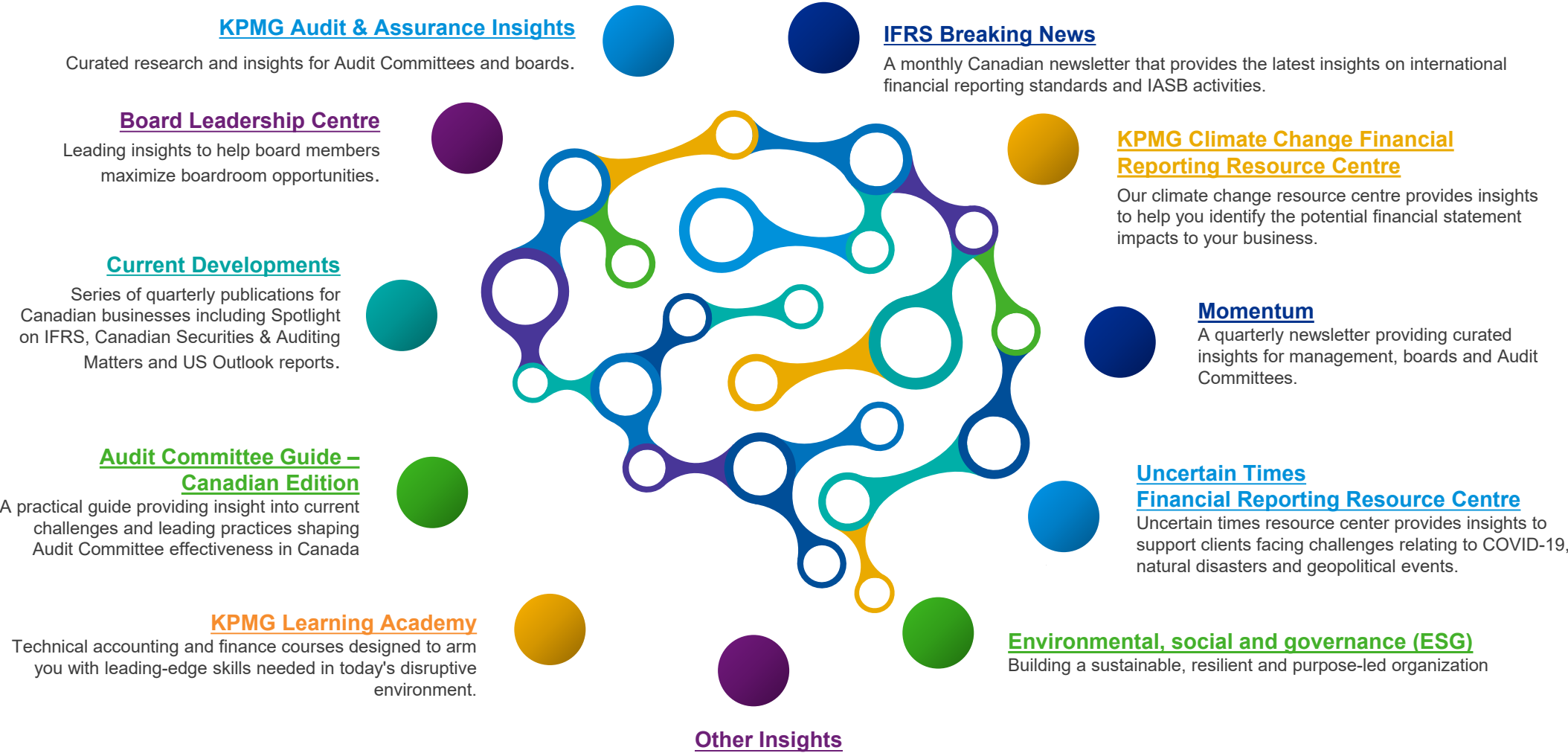


Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	<ul style="list-style-type: none"> • The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. • The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.





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The Regional Municipality of York

Audit Committee

January 26, 2023

Report of the Director, Audit Services

Audit Services Branch Report

1. Recommendations

1. Council receive this report for information.

2. Summary

This report provides an update on the activities of the Audit Services Branch since the last Audit Committee meeting held on June 9, 2022.

3. Background

The Audit Services Branch provides independent, objective assurance and consulting services designed to add value and improve York Region's operations. Audit Committee meets twice yearly and receives the Audit Services Branch activities in the fulfilment of their oversight responsibilities on the Region's systems of internal control and the audit process.

4. Analysis

Audit Plan Execution

The Audit Services Branch 2022 Risk-Based Work Plan (Work Plan) was approved by Council on February 24, 2022. A status update of the Work Plan is included in Attachment 1. Audit projects completed – Handling of Private Information, Water and Wastewater Billing and Development Charges are included as Attachments 2, 3, and 4 respectively. An update on the Status of Management Action Plans is included in Attachment 5.

As required by the *International Standards for the Professional Practice of Internal Auditing* (Standards), the internal audit activity must complete a quality assessment with external validation every five years. Audit Services completed the quality assessment in November 2022 and the Quality Assessment report is presented for information under a separate report. Additionally, the Standards require that an annual risk assessment is conducted with management's input to inform the development of the Annual Risk-Based Work Plan. The

proposed 2023 Annual Risk-Based Work Plan is presented for approval under a separate report.

Audit Services continues to conduct audits with several projects in progress and has seen an increase in consulting projects. Additionally, Audit Services continues to follow up on outstanding management action plans, maintain the quality assurance and improvement program that covers all aspects of the internal audit activity and advance the Fraud Prevention Program. Core elements that have been advanced as part of the Fraud Prevention Program include the draft Fraud Prevention Policy and the continued development of the Fraud Risk Assessment that will be rolled out through validation with management. Investigation services continue to be completed as required.

Audit Reports Issued

The following audit reports have been issued since June 9, 2022:

- Handling of Private Information Audit (Attachment 2)
- Water and Wastewater Billing Audit (Attachment 3)
- Development Charges Audit (Attachment 4)
- September 2022 Status of Management Action Plans (Attachment 5)

Audit Services Branch supports Vision and the 2019 to 2023 Strategic Plan

The Audit Services Branch, through its service offerings including assurance, consulting and investigation services, assists the Region in achieving its goals and community results areas in Vision and in the 2019 to 2023 Strategic Plan under Good Government. The internal audit activity is designed to add value and improve the organization's operations through a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and processes.

5. Financial

Audit Services continues to manage its workload within the allocated budget.

6. Local Impact

The Audit Services Branch provides auditing, consulting and investigative services to seven of the local municipalities through an Agreement on a cost recovery basis.

7. Conclusion

Audit Services continues to conduct audits, provide consulting and investigative services, advance the Fraud Prevention Program, follow up on management action plans and maintain

the quality assurance and improvement program. An update of Audit Services activities will be brought forward to the next Audit Committee meeting scheduled for June 2023.

For more information on this report, please contact Michelle Morris, Director, Audit Services 1-877-464-9675 ext.71205. Accessible formats or communication supports are available upon request.

Recommended by: **Michelle Morris**
Director, Audit Services

Approved for Submission:

Attachments (5)

1. eDocs# 14428312 – Status of the 2022 Audit Services Risk Based Work Plan
2. eDocs# 14428345 – Handling of Private Information Audit
3. eDocs# 14428398 – PW ENV Water Services Billing Audit
4. eDocs# 14428422 – Development Charges Audit
5. eDocs# 14428460 – Status of Management Action Plans

eDOCS # 14428273

STATUS OF AUDIT SERVICES BRANCH 2022 RISK-BASED WORK PLAN

Table 1 – Status of Audit Projects

Strategic Plan Area of Focus	Department	Project	Status
Economic Vitality	Transportation	Bus Operations Contracts Audit	Not started – Rolled into 2023
	York Region Rapid Transit Corporation (YRRTC)	YRRTC Audit*	Complete
	Finance – Treasury Office	Development Charges	Complete
Good Government	Legal Services – Court Services	Revenue Management	In progress
	Finance – Strategy & Transformation	Payroll Audit	In progress
	Corporate Services – Regional Clerk	Phase 1 – Handling of Private Information	Complete
	Finance – Controllership Office & Deputy Treasurer	PCI Compliance	In progress
	Finance – Procurement Office	Advisory Services	On-going
	Finance – Information Technology Services	Cyber Security	In progress
Healthy Communities	Community and Health Services – Shelter Operations	Shelter Operations	Not started – Rolled into 2023
Sustainable Environment	Environmental Services – Environmental Promotion & Protection	Waste Management arrangements between the Region and local municipalities	Not started – Rolled into 2023
	Environmental Services – Operations Maintenance & Monitoring	SCADA Audit	In progress
	Environmental Services – Infrastructure Asset Management	Water Billing Audit	Complete
*Requested that YRRTC Management provide a response to the audit			

STATUS OF AUDIT SERVICES BRANCH 2022 RISK-BASED WORK PLAN

Table 2 – Other Activities

Project Name	Status
1. Forensic Investigation Services	Ongoing
2. Advisory and Consulting Services <ul style="list-style-type: none"> • After Action Covid-19 Review Report • Procurement Practices in Paramedics and Senior Services • Fairness Monitoring 	Ongoing
3. Control Monitoring Program	Ongoing
4. Quality Assurance and Improvement Initiatives	Ongoing
5. Audit Services under the Agreement for seven of the local municipalities	Ongoing
6. Education and Outreach – Internal Audit Awareness 2022 Campaign	Complete
7. Risk-Based Work Plan 2023	Complete
8. Fraud Prevention Program	In progress
9. Quality Assurance with External Validation 2022	Complete



***Corporate Services – Regional
Clerk – Handling of Private
Information Audit Report***

July 2022

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1.0 Management Summary

Audit Services has completed a Handling of Private Information audit.

The audit was conducted in accordance with the *Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing*.

The scope of the audit included a review of internal controls related to the handling of private information at York Region. Audit Services reviewed the Region's policies and procedures, interviewed relevant personnel and reviewed documents as part of this audit.

Overall, the results of our detailed testing indicate that the Region's processes for the handling of private information operate in a manner to ensure compliance with relevant policies and legislation.

Opportunities for internal control improvements are detailed below and have been discussed with appropriate management. These improvements relate to policy updates, staff education and training, documentation practices, and client services.

There were key processes identified during the audit where controls were strong and working as designed to ensure adherence to the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) and the Personal Health Information Protection Act (PHIPA). This includes proactive privacy assessments when acquiring new systems, well-documented policies for handling private information, responding to Freedom of Information Requests, complying with consent best practices, and responding to privacy breaches.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Regional Clerks staff for their co-operation and assistance provided during the audit.

2.0 Introduction

As part of the Regional Council Approved Audit Plan, the Audit Services Branch performed a Handling of Private Information audit. The Audit Plan is developed by Audit Services using a risk assessment methodology that helps to define the different risks associated with the various processes at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

York Region employees must handle personal information in accordance with the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) and the Personal Health Information Protection Act (PHIPA).

The administration of the Region's Access and Privacy policies and procedures is the responsibility of the Office of the Regional Clerk. Audit Services reviewed the policies, procedures, toolkits, and training administered by the Access and Privacy Office to ensure compliance with required laws and legislation for the handling of personal information.

3.0 Objectives, Scope and Methodology

The main objectives of this engagement were to:

- Determine that the collection and handling of private information complied with legislation and policies.
- Verify that the internal controls over the security of private information collected were adequate and working as intended.

The scope of the audit included a review of internal controls related to the handling of private information at York Region. Audit Services reviewed the Region's policies and procedures, interviewed relevant personnel and reviewed documents as part of this audit.

The audit objectives were accomplished through:

1. Review of relevant policies, procedures, and legislation.
2. Interviews with appropriate personnel.
3. Review of other related documentation.

4.0 Detailed Observations and Recommendations

4.1 Corporate Privacy Policy

The existing Corporate Privacy Policy outlining definitions, descriptions, roles and responsibilities was last updated on June 21, 2012.

The Region follows the recommendations of the Information and Privacy Commissioner of Ontario (IPC) for best practices regarding consent. The Privacy Policy includes a description and obligations regarding consent; however, there is no distinction between the definitions of actual consent, implied consent, and voluntary consent. Ideally, information should only be collected under actual consent; however, there are limited circumstances in which implied consent may be required.

Failing to understand the various levels of consent may result in the overcollection, or unnecessary internal sharing of personal information, increasing the risk of liability to the Region. Depending on the type of information collected or shared, this may have larger consequences or create exposure in the event of a breach.

Recommendation

4.1.1 Due to the changing nature of the workforce over the past ten years and the transition to a hybrid work environment, the Corporate Privacy Policy should be reviewed and updated to ensure continued compliance with legislation.

The updated Privacy policy should provide distinct definitions of implied consent, actual consent and voluntary consent to ensure staff are aware and fulfill their obligations related to consent.

Recommendation Owner: Regional Clerk
Target Completion Date: Complete.

Management Response

Complete. The Corporate Privacy Policy was updated and approved by the Chief Administrative Officer in September 2022. The updated policy consolidates three separate policies relating to personal and personal health information and will make it easier for staff to understand their privacy obligations. It also incorporates an updated definition of consent that covers implied and express consent.

4.2 Responsible Use of Technology Policy

At the time of this audit, the Responsible Use of Technology Policy was last updated on November 14, 2016.

Regarding the use of personal devices, the policy states:

“Authorized Users must use the website ‘york.ca/eservices’ to access the Enterprise Network and Technology Systems and Resources through Personal Devices. Configuring Personal Devices for access through any other method, including but not limited to connection to Wi-Fi (e.g., ‘Staff’ network), cloud services and email accounts (e.g., ‘Regional Exchange account), is not permitted.”

Since the time of this policy update, employees have moved to a virtual environment, and a future “York @ Work” hybrid environment, due to the onset of the COVID-19 Pandemic and may be unclear of their expectations and responsibilities regarding the use of personal devices to perform their job responsibilities remotely.

Recommendation

4.2.1 The policy should be reviewed and updated as appropriate to clarify staff expectations and responsibilities regarding the use of personal devices to perform their work.

Recommendation Owner: Director, IT Services

Target Completion Date: Complete

Management Response

Due to the changing methods and circumstances where personal technology may be used, the updated Acceptable Use and Management of Technology policy permits use of personal technology “only through designated methods approved by the IT Services Branch”. These designated methods are listed in the ‘Supporting Procedures’ document referenced at the end of the policy, with hyperlinks to detailed instructions on MyPortal. This allows for individual methods to be updated as required.

4.3 Personal Information Bank

The Personal Information Bank does not identify the servers in which the data is stored.

The Personal Information Bank is maintained by the Region as a repository to compile and track the location of all existing personal information held by the Region. Internal practice is to update the bank every three years. As part of our review of the Personal Information Bank, we noted that it does not identify the servers in which the data is stored.

As the Region moves towards a remote environment, there will be an increase in the amount of personal information stored digitally. Maintaining an accurate location of personal information is critical to information protection, as well as ensuring an appropriate and timely response in the event of a cyber breach.

Recommendation

4.3.1 Management should also consider including server information when updating the Personal Information Bank to easily identify the location and access rights to specific personal information. This would create a more complete repository of information, as well as assist the Region in a quick response in the event of a cyber breach.

Recommendation Owner: Regional Clerk
Target Completion Date: Q2 2023

Management Response

Agreed. The Region maintains a record of its Personal Information Banks (PIBs) as required under the *Municipal Freedom of Information and Protection of Privacy Act*. The PIBs are updated every three years in coordination with departmental staff. The next update is anticipated to be completed by the end of Q2 2023 and, as part of the process, staff will collect server addresses for electronic repositories of personal and personal health information.

4.4 Privacy Review During the CRIT Process

Privacy review during the Cyber Risk Information Tool (CRIT) process does not include a formal list of key inquiries for each acquisition.

The CRIT process at York Region is a comprehensive review to address and mitigate cyber risks prior to acquisition, including input from the Regional Clerk regarding privacy concerns.

Our review determined that input from the Regional Clerk is based on experience of the person attending the meeting and does not include a formal list of key inquiries to be documented. This increases the risk that critical areas may not be addressed and documented during the assessment depending upon the experience of the personnel in attendance.

Advice provided during the CRIT process is subject to Freedom of Information (FOI) requests. Applying a consistent and comprehensive approach to document privacy considerations discussed during the CRIT process increases the level of transparency and support for the due diligence performed by the Region.

Recommendation

4.4.1 Management should implement a list of formal inquiries that must be documented for each acquisition through the CRIT process to provide a consistent standard to the privacy assessment for all acquisitions.

Recommendation Owner: Regional Clerk
Target Completion Date: Q3 2023

Management Response

Agreed. Although, staff do address privacy risks through the CRIT process, a consistent approach is useful. Staff will develop a standard list of inquiries based on the seven principles of Privacy by Design. Privacy by Design, a standard developed by the Information and Privacy Commissioner, was incorporated into the updated Corporate Privacy Policy.

4.5 Freedom of Information Request (FOI) Form

When attempting to access the FOI Request form on the external York.ca website, we were notified that “This site can not be reached. Beta.york.ca’s server IP address could not be found.”

The York.ca website states “A formal request must be submitted in writing either by letter or on the Access Request Form, to the Regional Clerk’s Office and be accompanied by a prescribed fee of \$5 (cheque or money order made payable to York Region); however, we were unable to access the form using this process as part of our review

Recommendation

4.5.1 Management should update the external website to ensure that the FOI Request Form is available for download to the public.

Recommendation Owner: Regional Clerk
Target Completion Date: Complete

4.5.2 Management should consider expanding the use of online payment capabilities for FOI requests to reduce the opportunities for fraud and / or theft.

Recommendation Owner: Regional Clerk
Target Completion Date: Complete

Management Response

Complete. The link to the Access Request Form was broken following the Region’s migration to a new web platform and was rectified shortly after being flagged. Online FOI payments launched on October 18, 2022

4.6 Employee Privacy Awareness and Training

The Mandatory Employee Training Course “Corporate Privacy Policy” (Course Code: IM0040) is a one-time training course for new employees, with no requirement for refresher courses to provide updated information and reinforcement of acceptable practices

Through discussion with staff, we noted that there is an absence of awareness around internal sharing of information among employees. Employees may share information internally for various business purposes, unaware they are creating a duplicate copy of personal information that is not captured in the personal information bank or may be exposed through a less secure environment.

Our review also noted that the Region has legacy systems that were put in place prior to the implementation of the CRIT process which address appropriate access rights prior to system implementation. Managers may not be trained to periodically re-evaluate access rights on more vulnerable systems implemented prior to the CRIT process.

Recommendation

4.6.1 Due to the high-risk nature of handling of private information, Management should consider requiring a refresher course for employees on an annual basis reflecting the latest roles, responsibilities and best practices outlined in the Policy.

Recommendation Owner: Regional Clerk
Target Completion Date: Q4 2023

4.6.2 As noted in Observation 4.1, the Corporate Privacy Policy requires update; accordingly, existing employees may not receive training on the new policy under the current training regimen.

Recommendation Owner: Regional Clerk
Target Completion Date: Q4 2023

4.6.3 Management should consider implementing increased awareness materials into the training program regarding the risks and implications of the internal sharing of personal and sensitive information. Training materials should encourage employees to remove sensitive information to meet the minimum requirements when sharing information internally.

Recommendation Owner: Regional Clerk
Target Completion Date: Q4 2023

4.6.4 To address the concerns of legacy access provided to systems implemented before the CRIT process, training materials for management should include a recommendation that Managers periodically review access rights to the systems in which they are responsible for.

Recommendation Owner: Regional Clerk
Target Completion Date: Q4 2023

Management Response

The Region's required privacy training module will be updated to reflect the new Corporate Privacy Policy. While the module still reflects valid key privacy messages, it could benefit from specific messaging related to the new hybrid work environment. This is expected to be completed by the end of 2023.

Annual refresher training is being developed in partnership with the Privacy, IT Security, and Information Management functions to ensure the training is effective and relevant. Staff will consider including reminders to managers to periodically review access to systems containing personal information.

Additional materials have also been developed to support the protection of personal information such as a Privacy Breach Placemat to guide staff in the event of a breach. Access and Privacy staff also participate in the Data Sharing Working Group, which is developing processes and guidelines for the appropriate internal handling and sharing of personal information.

4.7 Privacy Information Audits

The Region does not pro-actively audit the Region's internal processes to ensure compliance with policy and legislation, nor performs privacy compliance audits on third parties.

The Cyber Risk Information Tool (CRIT) and Cyber Risk Exposure Tool (CRET) processes implemented by the Region are preventative controls to protect the personal information collected and maintained both internally and by third parties. However, there is no subsequent follow-up to ensure adherence with Region policies and legislative requirements, including the appropriate disposal of personal information by third parties.

Without pro-active audits, there is a risk that third-party vendors are not disposing of personal information in accordance with the Region's retention policies and in an appropriate manner to reduce the risks associated with handling personal information that is no longer required.

Recommendation

4.7.1 Management should consider pro-actively auditing our internal processes and those of third-party vendors handling the Region's private information.

Recommendation Owner: Regional Clerk
Target Completion Date: Complete

Management Response

The Region uses standard terms when negotiating contracts with third parties that set out clear requirements around their handling of personal information on the Region's behalf. This includes confidentiality provisions, notification requirements in the event of a breach and an undertaking to delete all personal information at the end their engagement. Similarly, through the CRIT process, the Region's business units are provided with guidelines and requirements for new or substantially modified systems containing personal information.

Proactively auditing the numerous internal and third-party systems is a significant undertaking. The Region has submitted a business case for an additional Access and Privacy Officer in the 2023 Budget and, if supported, this may provide some additional capacity for such work. Management will consider proactive audits as part of a broader risk-based work planning exercise.

4.8 Client Feedback

The Region does not pro-actively solicit client feedback regarding the level of understanding of consent when providing personal information to the Region.

We verified that the Region includes Collection Notices in all forms used to collect personal information; however, the Region does not receive feedback from client users on their level of understanding.

Soliciting client feedback could assist in pro-actively addressing concerns and increase trust, confidence, and transparency with the public.

Recommendation

4.8.1 Management should consider periodically obtaining feedback from clients to ensure an adequate level of understanding of consent is being provided regarding the personal information the Region is collecting.

Recommendation Owner: Regional Clerk
Target Completion Date: Complete

Management Response

The Region strives to ensure that its Collection Notices are written in plain language so clients can make informed decisions around consent. Each Collection Notice also identifies a program expert who can be contacted if clients have questions about what personal information is being collected and how it will be used.

Management will work with client service groups to consider the feasibility of gathering consent feedback as part of broader service satisfaction surveys.

End of observations.

Management has received a copy of this report and included a response as indicated in their signatures below.

Original signed

Dino Basso
Commissioner, Corporate Services

Original signed

Christopher Raynor
Regional Clerk

Original signed

Richard Leest
Director, IT Services

Original signed

Michelle Morris
Director Audit Services

eDocs# 14428345



***Public Works – Environmental Services,
Water Services Billing Audit Report***

September 2022

Authored by Antonio Bianchi

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1.0 Management Summary

Audit Services has completed an audit of the Region's Water Billing Services, as listed in the 2022 Audit Services Risk Based Work Plan under Sustainable Environment Area of Focus.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

The main objectives of this engagement were:

- To determine if water services billed to the local municipalities are accurate and timely.
- To determine the effectiveness of the billing dispute resolution process to achieve mutually agreeable outcomes between the Region and the local municipalities.
- To determine the process by which the Region monitors and tracks non-revenue water.
- To determine the costs associated with late water billing payments.

Based on the work performed, we noted that a well-defined process has been developed for the collection of non-revenue water consumption data to help create accurate water billings for the local municipalities. There are several check points during the collection, reconciliation and review of water consumption amounts from various sources (meters, watermain break estimates, scheduled watermain flushing etc.) to maintain accuracy.

For non-revenue water usage within the capital delivery and operations areas in Public Works, contractors are required to open an account with the local municipality and pay for any water taken during their work.

There are opportunities for improvement which include:

1. Charging of late payments fees as per the Water and Wastewater Bylaws when payment is rendered to the Region beyond the allowable 15 days.
2. Establishing a service level agreement and dispute resolution process with all local municipalities to better formalize the Region's role in water distribution and wastewater collection.
3. Minimizing the opportunity cost associated with the lengthy period taken to create and issue invoices to local municipalities.
4. Updating the Collection of Accounts Policy and associated Guidelines.

Details of the above observations are noted under Section 4.0.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Public Works – Environment Services and Finance staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

The Region's Public Works - Environmental Services is responsible for supplying local municipalities clean drinking water for everyday use and collecting wastewater from the local municipalities for treatment at sewage treatment plants.

York Region is wholesale provider of drinking water, responsible for the water production, treatment, storage and bulk supply to its cities and towns. Regional transmission mains transfer water to infrastructure owned and operated by the local cities and towns, which in turn distribute it directly to residents and businesses. The lack of direct access to Lake Ontario has required the Region to form strong partnerships with neighboring Region of Peel and City of Toronto which provide drinking water from Lake Ontario that together meet 90% of the needs of York Region's residents and businesses. Groundwater drawn from municipal wells supply close to 7% of supply and remaining water supply from Lake Simcoe.

York Region's water infrastructure is made up of:

- The York water system, which is the Region's largest drinking water treatment and supply system; it services the towns of Newmarket and Aurora, parts of the Town of East Gwillimbury (Holland Landing, Queensville and Sharon), King City, the community of Stouffville in the Town of Whitchurch-Stouffville and the cities of Markham, Richmond Hill and Vaughan; this system distributes Lake Ontario water. In the Towns of Aurora, Newmarket and East Gwillimbury, Lake Ontario supply is blended with ground water from the Yonge Street aquifer, and in the community of Stouffville it is supplemented with local groundwater.
- The Georgina water system, which draws on water from Lake Simcoe to serve residents of the Town of Georgina.
- Five stand-alone groundwater supply systems, which service communities in the Greenbelt Plan area where regulation prevents lake-based supply. These groundwater systems are in the communities of Ansnorveldt, Nobleton and Schomberg in Township of King; Ballantrae-Musselman's Lake in the Town of Whitchurch-Stouffville; and Mount Albert in the Town of East Gwillimbury.

Bylaws for the uniform service rates charged for water delivery to the local municipality and wastewater collection from the municipality are developed annually by Public Works - Environmental Services and approved by Regional Council. These rates are used by the Region when billing the local municipalities for water and wastewater services.

The Region generally bills water and wastewater on a 1:1 ratio where one unit of water equals one unit of wastewater. Discounts are given to municipalities where municipal wastewater servicing does not exist e.g., private systems, septic tanks.

The two bylaws (one for water and one for wastewater) stipulate:

1. The period for which the developed rates will be applicable.
2. The billing rate that will be charged.
3. Billing period duration - there are six billing periods made of up two months services starting April. Payment to be rendered to the Region 15 days after the invoice is submitted.
4. Interest charges to be applied to any outstanding billing in default, that is, outstanding for more than 15 days from submission.

3.0 Objectives, Scope and Methodology

AUDIT OBJECTIVES

The main objectives of this engagement were:

- To determine if water services billed to the local municipalities are accurate and timely.
- To determine the effectiveness of the billing dispute resolution process to achieve mutually agreeable outcomes between the Region and the local municipalities.
- To determine the process by which the Region monitors and tracks non-revenue water.
- To determine the costs associated with late water billing payments.

AUDIT SCOPE

The audit included:

1. A review of the process from meter reading to invoice creation for accuracy and completion of the billing for water services.
2. A review of the current informal dispute methodology and application.
3. A review of the non-revenue water tracking process as it relates to the water services billing.
4. A review of late payments for 2021 to determine the borrowing costs to the Region for 2021.
5. Interviews with relevant staff.

AUDIT METHODOLOGY

The audit objectives were accomplished through:

1. A detailed review of the water billing cycle map prepared by Environmental Services. We note the current process is undergoing an extensive internal process review with one of the goals being the reduction on the reliance on manual efforts to produce water billings. Management indicated that digitization of some of the current manual tasks may result in shortening the time for the invoice billing process.
2. Detailed testing of a sample of water billing invoices to the local municipalities. The judgmentally selected sample of nine invoices included one invoice per local municipality between the billing periods Nov-Dec 2020 to Nov-Dec 2021. The total amount for these billings was \$61.7 million.
3. A review of the process to track and report non-revenue water for operational and capital programs.
4. Review of other related documentation.

4.0 Detailed Observations

4.1 *Late payment fees*

Interest charges are not being applied to water billing payments received past 15 days

Through discussion with management and review of invoice payments, we noted that interest is not being calculated and charged back to municipalities on water services invoices paid after 15 days. This delay in payment results in opportunity costs to the Region.

As per the bylaws adopted by Regional Council in 2020, 2021 and 2022, that established the charges for the uniform water and wastewater services rates, accounts “shall be payable to the Region at its office in the Town of Newmarket within fifteen (15) days after the date on which the account was submitted.” The bylaws further state that in the event of default of payment of any account submitted pursuant to these bylaws, interest shall be payable on the account in default at the rate of fifteen percent (15%) per annum for each month or fraction thereof while such default continues.

A review of one invoice from each municipality between billing period 6 in 2020 to period 6 in 2021 found that the average days to payment was almost 39 days. The total amount of the billings was \$61.8 million. One municipality paid within the 15 days. Removing that municipality from the calculation increased the average number of days to payment to almost 43 days for the \$60 million in billings for the eight remaining municipalities.

We calculated on average that the cost to the Region to borrow \$60 million @ 1.3% for 24 days (average of 39 days outstanding minus 15 before payment is due) is calculated to be approximately \$50,050. The annual cost to the Region for a full year (6 billing periods paid 24 days after the due date) would be approximately \$300,300 in opportunity costs. As such, the Region should exercise its option to charge interest on late payments as noted in the bylaws to minimize the opportunity costs associated with late payments.

Recommendation

4.1 The Region applies late payment interest charges as allowed by the water services bylaws to recover opportunity costs associated with the late payments.

Management Response

- 4.1.1** We have a strong partnership with local municipalities to deliver water and wastewater services. Majority of the municipalities make payment in a timely manner. Many of the local municipalities have their own internal processes that mandate individual processing times. Feasibility of 15-day payment period may not be reasonable and would propose a 30-day payment period and interest charged after the 30 days.
- 4.1.2** Staff will work with Corporate Finance to evaluate the feasibility of current financial systems to support the issuance, tracking and collections of interest by Q4 2023.
- 4.1.3** Staff will work with local municipalities to finalize service level agreements which will cover interest payments within the agreements by Q4 2024.
- 4.1.4** Depending on the outcome of item 4.2, staff will revise the current bylaw to reflect the collection period Q1 2024.

4.2 Service level agreements and dispute resolution process

Service level agreements and dispute resolution processes should be formalized with the local municipalities

The Region currently has one service level agreement and dispute resolution process with one municipality. There are no formal service level agreements or dispute resolution processes with the remaining eight municipalities.

Our review of Aging Reports for water services invoices noted that one invoice has been partially paid and has an outstanding balance amount of \$350K since February 2020. The outstanding balance is not a late payment for water services, rather it is a holdback for which the Region has not received any supporting documentation for the amount being withheld.

The Region has hired a consultant to review the matter and a report is expected in the fall of 2022.

Without a service level agreement and dispute resolution process, there is an increased risk that:

- Payments can be held back unilaterally and without adequate documentation.
- The delineation of the responsibilities associated with the distribution of water and handling of wastewater can become unclear over time as the responsibilities are not formally defined.
- Planning and construction of infrastructure is not communicated to affected parties in a timely manner. As a result, input from affected parties may not be solicited in a timely manner.
- When a dispute arises, there is no formal resolution process to bring disputes forward and have it reviewed by an agreed upon outside party, if necessary. Likewise, there is no formal process to require adjudication of the dispute and binding arbitration.

The need for a service level agreement and dispute resolution process development was also identified in the Corporate Water Audit (2014) project.

Recommendation

4.2 The Region establish a service level agreement and dispute resolution process with all local municipalities to better formalize roles and responsibilities of the Region and the local municipalities in water distribution and wastewater collection as part of integrated service delivery. This will help to ensure that:

- All disputes are appropriately documented.
- With periodic reviews, responsibilities can be revisited and reaffirmed. New responsibilities are clarified and agreed upon.
- As part of the service level agreement, planning and construction projects can be communicated in a timely manner to ascertain any effects on service level requirements.
- When disputes arise, there is an intake process that requires a formal tabling of any issue(s) and avoids any unilateral action by either party. Once in process, the dispute can be adjudicated and arbitrated by an outside party.

Management Response

4.2 Agreed – staff will complete by Q4 2024.

4.3 Bill Preparation Timelines

Minimizing opportunity costs incurred during the invoicing preparation cycle

Audit Services compared York Region, Region of Peel and the City of Toronto water services billing and invoice payment timelines.

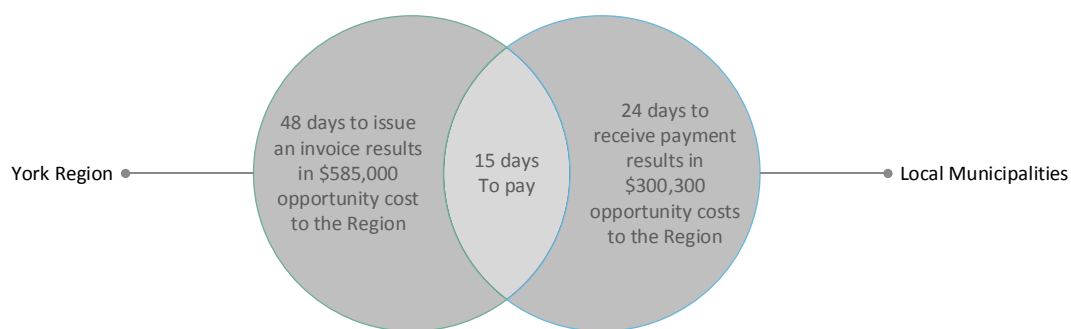
The Region's total billing cycle is the longest among Peel, Toronto, and York Region at almost 87 days (Column C). Comparing time to issue invoices, York Region also has the longest invoicing cycle (Column A). It should be noted that Toronto and Peel is a single tier water and wastewater service delivery process – direct billing to residence and businesses. York Region is a two-tier service. York delivers to and bills the local municipalities. The local municipalities deliver and bill residences and business.

Table 1

Municipality	Column A Average # of days to issue invoices	Column B Average # of days to receive payment	Column C Total # of days in the billing payment cycle
Peel	17.6	27.6	45.2
Toronto	20.2	51.3	71.5
York	48.2	38.6	86.8

Having the longest invoice preparation cycle results in further opportunity costs for the Region, in addition to the opportunity costs associated with the late payments as mentioned in Observation 4.1.

Figure 1 below indicates the total timelines in our current billing cycle and the opportunity costs.



Assuming the same cost to borrow as in Observation 4.1 and 24 days to issue an invoice, which represents 50% of the time it currently takes, the opportunity cost to the Region is approximately \$300,300 annually.

Management has confirmed that the Water & Wastewater Billing Improvement Project has established high level goals to reduce time spent on manual tasks, enhance analysis capabilities, and improve customer experience. However, there is no current roadmap to potentially reduce the time to issue an invoice and associated opportunity costs.

Recommendation

4.3 Management consider the upcoming digital enhancements to set goals for reducing the time and resources needed to create water services billings to local municipalities.

Management Response

4.3 As noted, York Region has longer processing times, given water is purchased from neighbouring Toronto and Peel, requiring time to acquire data from our service providers, which is then billed to the local municipalities. Work is already underway to digitize the process and anticipate improvements by Q4 2024.

4.4 Policy and Guideline updates

Updating the Collection of Accounts Policy and the associated Guidelines

The Collections of Accounts Policy, last updated in June 2018, contains links to outdated and draft documents that may supply inaccurate and / or outdated information.

Specifically, the link to the Delegation Bylaw refers to the 2016 Council approved bylaw. The current Council approved Delegation Bylaw was approved June 2018.

The Collections of Accounts Policy also refers to a Guide to the Collection of Accounts Policy that has been in draft since 2018.

Recommendation

4.4 To help ensure accurate and up-to-date information is provided to users of the policy, Finance should:

- a) Review and update the Policy where updates are required.
- b) Update the link to the most current Delegation Bylaw.
- c) Finalize the Guidelines, taking into consideration any changes made to the Policy.

Management Response

4.4 Corporate Finance will work to update the Collection of Accounts Policy and related Guideline by Q4 2023.

End of Observations

Management has received a copy of this report and included a response.

Original signed

Erin Mahoney
Commissioner, Public Works

Original signed

Wendy Kemp
Acting Director, Infrastructure
Asset Management

Original signed

Laura Mirabella
Commissioner, Finance &
Regional Treasurer

Original signed

Michelle Morris
Director, Audit Services

Original signed

Laura McDowell
General Manager (Interim),
Environment, Public Works

Original signed

Michelle Swan
Director, Business Planning &
Operations Support

Original signed

Michelle Grover
Director, Strategy &
Transformation

eDocs# 14428398



***Development Charges Audit
Finance Department
Treasury Office***

November 2022

Authored by Leanne Rabeau, CPA, CA

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1.0 Management Summary

Audit Services has completed an audit of Development Charges (DC's) within the Treasury Office of the Finance Department. The objectives of this engagement were to provide assurance on the adequacy of internal controls over the administration of the DC process, including compliance with applicable legislation requirements, calculations and collections, and management oversight.

The audit scope included a review of select development charge transactions, processes and documents created and/or used during the period April 1, 2021, through June 2022. Processes included (but are not limited to) collections calculated, payment processing, financial reporting, management oversight, transfers from lower tier municipalities, and regulatory compliance. The scope of this review did not include a review of or verification of documentation at the nine local municipalities. All supporting documentation from the locals was provided by the Region.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Based on the work performed, opportunities exist for control and process improvements within the administration and management of the DC process. These control and process improvements mirror some of the findings in the York Region Development Charges Review, Consulting Report issued in April 2013. These opportunities include formally documenting procedures and roles/responsibilities, enhanced tracking and oversight, and verification of completeness over DC remittance amounts.

During the audit we noted key strengths within the DC administration process including staff having in-depth knowledge of legislative requirements, accuracy of calculations and timely collections in the sample of DC transactions reviewed, and managements proactive approach to consider alternative software for improved tracking and oversight.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

Audit Services would like to thank Region staff and management for their co-operation and assistance provided during the audit.

2.0 Introduction

The payment of DCs is governed through the Provincial *Development Charge Act 1997* and *Regional By-Law No. 2012-36: A by-law to impose development charges against*

lands to pay for increased capital costs required because of increased needs for services arising from development within The Regional Municipality of York.

Regional DCs are levied to cover the increased needs and costs brought on by land development for hard services (water, waste water, roads) and soft services (transit, general services). As per the *Development Charges Act 1997*, Regional DCs collected by local municipalities must be remitted to the Region on or before the 25th of the month after the month the funds were collected.

Regional DC's have continued to trend upwards over the past few years and are as follows:

Table 1

Year	Regional DCs collected
2019	216,669,308
2020	\$279,398,407
2021*	\$457,348,102
2022 (As at Aug 31)	\$463,374,413

DC's are generally collected at the local municipality when the building permit is issued. For residential subdivisions, the hard services component of DCs are collected directly by the Region from the developer when subdivisions are submitted to the Region for approval. The soft services component is collected by the local municipalities at building permit issuance.

Regional DCs collected in **2021** were as follows:

Collected by the...	Amount	Percentage
Region	\$259,936,527	57%
Local Municipality for the Region	\$197,411,574	43%
	\$457,348,102	100%

3.0 Objectives, Scope, and Methodology

AUDIT OBJECTIVES

The main objectives of this engagement were:

- To verify that internal controls over development charge calculations and collections are adequate and working as intended
- To verify that sufficient policies and procedures exist to support the administration of the development charges process
- To ensure compliance with the development charges by-law and applicable legislative requirements

AUDIT METHODOLOGY & SCOPE

The audit included a review of select development charge transactions, processes and documents created and/or used during the period April 1, 2021 through March 31, 2022. Processes include (but are not limited to) collections calculated, payment processing, financial reporting, management oversight, transfers from lower tier municipalities, and regulatory compliance.

The audit objectives were accomplished through:

1. Review of relevant policies, procedures, and legislation
2. Interviews with appropriate personnel
3. Sample testing within processes identified in the audit scope
4. Review of other related documentation

4.0 Detailed Observations

4.1 *Completeness and Verification of DC's*

There is currently no process in place to help ensure that the Region receives all DC's owing.

The local municipalities email the Region monthly to communicate the DC's collected for the prior month on permits and the corresponding amount owing to the Region. There is currently no independent verification on the Region's behalf of completeness on the permit dates, amounts calculated, and amounts submitted. Without proper verification or a period review of DC payments, underpayments could go undetected resulting in financial loss to the Region.

Based on discussions with the Manager Development Financing, "YorkTrax", the in-house Planning software, has capabilities to provide better oversight and tracking of DC related information, however not all of the locals have been receptive to using this software and therefore has been used inconsistently over the past few years.

Recommendations

Management should consider implementing an audit verification process to ensure DC's collected are complete and accurate. In the absence of a centralized software system, management could implement a periodic review of DC payments.

Management Response

Agreed. Until such time as the YorkTrax is available to track all DC payments, Management will work with local municipal staff to enhance reporting information being provided to the Region as it relates to DCs collections (e.g., building permit data) coupled with periodic audit verifications.

Management is proposing to implement this process by the end of Q2 2023.

4.2 *Tracking of Development Charges*

DC's are currently tracked and managed in Microsoft Excel, which is not adequate to support the administration of the DC process.

The Region uses Microsoft Excel to track, calculate and manage all DC related information for the nine local municipalities and developers. Using Excel as a detailed

database to calculate and manage a program with such a significant amount of budget is not ideal given its limited functionality and susceptibility to user errors. There is an increased opportunity for DC calculation errors to go undetected potentially resulting in inaccurate information and reporting.

Recommendations

Management should consider investing in an applicable automated centralized software that could track DC related data and provide real time reporting to both the locals and Region.

Opportunities to coordinate with the locals on an integrated software system should be considered to increase efficiencies and provide better management oversight on completeness of DC's calculated.

Management Response

Agreed. Management will conduct a review on all the software systems used by the locals and other regional governments for reporting DC collections. Subject to budget availability, Management will explore implementing a system compatible for both the Region's and local municipal needs. Staff will include the Region's Planning department in this review to ensure that any data from the software system used can be transferred into Yorktrax once it is fully implemented.

Management is proposing to implement this by Q4 2024.

4.3 Documentation of Roles, Responsibilities & Procedures

Roles, responsibilities, and DC related procedures are not formally documented.

The DC administration process is very manual and labor intensive including calculations, monthly reconciliation, and reporting. Based on discussions with staff, the majority of the monthly DC reconciliation process is completed by one staff. By not formally capturing procedures and responsibilities, the Region risks challenges in the transfer of knowledge and succession planning that could negatively impact the administration of the DC process.

Recommendation

Management should formally document DC related procedures, roles, and responsibilities.

Management Response

Agreed. Management will develop a DC collection manual. This manual will identify the roles and responsibility for both Regional and local staff with respect to the collection and reporting of DC collections.

Management is proposing to implement this by Q3 2023.

End of observations.

Management has received a copy of this report and included a response as indicated in their signatures below.

Original Signed

Laura Mirabella
Commissioner, Financial Services
& Regional Chair

Original Signed

Director, Treasury Office

Original Signed

Michelle Morris
Director Audit Services

eDocs# 14428422



***Audit Services
Status of Management Action
Plans Report***

January 2023

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Executive Summary

Audit Services has completed a follow-up on the status of Management Action Plans (MAPs) as at September 30, 2022. Our follow-up was conducted in accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing Standard 2500 – Monitoring Progress, which requires that the chief audit executive establish and maintain a system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The follow-up included:

- All audit reports with one or more open MAPs as of our previous status report dated June 2022.
- Requests for a One Year Past Due memo from management, where appropriate.¹

Beginning in 2020, Audit Services offered management the option to defer their status updates, as we recognized the impact on the Region’s resources brought on by the pandemic. With the lifting of the Region’s state of emergency, Audit Services has removed the deferral option as of the June 2022 reporting period.

Based on the responses received, management remains committed to the implementation of internal controls and process improvements to mitigate the risks identified in our audits. The table below illustrates the progress management has made over the previous five year period in addressing audit findings in public audit reports:

AUDIT REPORT YEAR	TOTAL MAPS	MAPS COMPLETED (as at 09/30/22)	MAPS COMPLETED % (as at 09/30/22)
2017	26	26	100%
2018	36	36	100%
2019	32	30	94%
2020	24	24	100%
2021	10	3	30%
Total	128	119	93%

¹ As requested by Audit Committee in November 2008, departments having a MAP that remains outstanding more than one year past the original due date must provide Audit Committee with a separate memo as to why the action plan has not been completed.

The following illustration shows a comparison between our last update and our current update of the percentage of MAPS completed for audit reports issued over the previous five year period:



Four audit reports with a combined total of 27 open MAPs were followed up as of September 30, 2022. In total, 18 of the 27 original MAPs – or 67%– have been fully implemented to date. In the last term of Council, this has ranged between 60% and 90% and varies based on timing of reports being issued.

For a summary of audit reports followed up, please see Table A. For updated status of MAPs as at September 30, 2022 see Table B. Additional detail is available upon request from the Director, Audit Services.

TABLE A – Summary of Status of Management Action Plans as at September 30, 2022

Audit Report	Date Reported to Audit Committee	Number of recommendations in Audit Report	Completed by 03/31/22	Completed for 09/30/22	Not yet complete as at 09/30/22	(%) Complete as at 09/30/22
CHS – Sexual Health	January 2020	5	3	0	2	60%
CAO – Workplace Health, Safety and Wellness	January 2021	5	4	1	0	100%
CS – Cellular Audit	January 2021	7	3	4	0	100%
CAO – Long-Term Disability Management & Oversight	January 2022	10	0	3	7	30%
Grand Total		27	10	8	9	67%

TABLE B – Status of Management Action Plans as at September 30, 2022

Audit Report	Recommendation	Management response	Original due date	Current due date
CHS – Sexual Health	4.3 a) Determine the frequency and need for the community needs assessment. Consider updating the needs assessment every 4 years in line with term of Council.	The new Community Needs Assessment plan was initiated in Q2 2022 and will be completed by the end of Q4 2022. Final report findings will be completed in Q1 2023. The plan to implement every 4 years remains in place.	Q4 2020	Q1 2023
	b) Ensure the information included in the needs assessment is current and relevant.	The Community Needs Assessment was developed with updated methodology to ensure that information included is current/relevant and will be completed by the end of Q4 2022. Completion of a final report of the Community Needs Assessment findings will be completed in Q1 2023.	Q4 2020	Q1 2023
	c) Ensure all information contained in the needs assessment is directly tied to and supported by the survey results.	Completion of the final Community Needs Assessment Report will be completed in Q1 2023 and will be directly tied to and supported by survey results.	Q4 2020	Q1 2023
	d) Consider the use of an external resource to prepare the needs assessment, or at a minimum review the assessment prepared internally.	The Strategic Engagement and Emergency Management (SEEM) team were engaged to consult on the methodology and planned engagement of community partners for the Community Needs Assessment. This was completed by June 29, 2022. A public health program evaluator has supported the development, and implementation plan of the needs assessment to be completed in Q4 2022.	Q4 2020	Q4 2022

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.5 Strengthen oversight and enforcement measures to ensure that all mandatory training is completed and tracked annually as required.	Mandatory training for all staff has been tracked and reviewed throughout 2022 and all mandatory training for 2022 will be completed by the end of Q4 2022.	Q4 2019	Q4 2022

Audit Report	Recommendation	Management response	Original due date	Current due date
CAO – Workplace Health, Safety and Wellness	4.1 Management should update the process for incident reporting and tracking to ensure the completion date of corrective actions is entered into the Parklane software.	<p>Complete – The vendor dedicated a project team to our custom request and was able to successfully implement the required changes. The update will allow for corrective actions to be assigned to the appropriate individuals when completing the report and ensure that they are tracked to completion. The system sends an email prompt to the assigned individual (detailing the action required and expected date of completion) so that they can enter the actions taken into Parklane through the direct link provided.</p> <p>Health and Safety will continue to review incident reports with the JHSC and conduct safety audits within high-risk areas to further support this process.</p> <p>No further action required.</p>	Q3 2021	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
CS - Cellular	<p>4.1 Management should review the identified policies to ensure they remain relevant and accurate.</p> <p>Due to the inherent environment of rapid change regarding technology, management should consider providing a timeframe requirement for review within the policies themselves, to ensure they regularly remain up to date, applicable and accurate.</p>	<p>Complete – An updated Acceptable Use and Management of Technology policy was approved by the CAO on May 6, 2022 with subsequent minor changes approved on October 6, 2022.</p> <p>An updated Use of Social Media Policy was approved by the CAO on January 27, 2021.</p> <p>An updated Privacy Policy was approved by the CAO on September 21, 2022.</p> <p>The Voicemail Policy was rescinded by the CAO on September 21, 2022.</p>	Q4 2020	N/A
	<p>4.3 Management should consider that Regional employees issued a cellular device are required to sign-off on receipt and understand the contents of the Smartphone and Cell Phone Quick Reference Guide that outlines the plan details, roles and responsibilities and other related policies and procedures to the cellular device. The contents of the guide should also reflect the employee's responsibility for their own personal information.</p>	<p>Complete – A digital Consent to Terms of Use form has been developed and will go-live at the end of 2022. Staff are required to sign-off the digital Consent Form when receiving a cellular device.</p>	Q4 2021	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	<p>4.5 Management should implement a formal off-boarding process to ensure that IT is notified when a cellular device is no longer in use by an employee.</p> <p>As part of this process, management should consider providing the off-boarding Manager with a checklist for decommissioning cellular devices. Part of this checklist should be the requirement to contact IT to ensure devices can be assessed for damage and sensitive information is securely wiped prior to disposal or reassignment.</p>	<p>Complete – The Technology Off Boarding Service Request has been updated to capture cellular device details. Upon receiving an offboarding request, IT staff will make required changes to the Region’s cellular account and device management information.</p>	Q1 2021	N/A
	<p>4.6 Management should consider a process in which individual departments review active cellphone accounts in their area and determine whether to cancel or continue the phone circuit for that device on a more frequent basis, rather than only during the required review at the 3-year refresh.</p>	<p>Complete – A dashboard displaying all active cellphone accounts has been developed and will go-live at the end of 2022. Individual departments will be able to review active accounts and request changes at any time.</p>	Q1 2021	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
CAO – Long-Term Disability Management & Oversight	4.1 4.1.1 Management should consider transferring the payment processing to the benefits administrator in the new contract.	<ul style="list-style-type: none"> - RFP competition for Benefits closed in April 2022 and the contract award is being processed. It was confirmed during the evaluation process that processing of LTD payments would be required and all vendors confirmed capability to execute this. - Benefit provider will begin new contract in January 2023 with a transition to begin in June/July 2022. A review of LTD payments will be completed once contract is awarded. 	Q1 2023	Q1 2023
	4.1.2 Management should request quotes for payment processing service to be provided as part of the RFP submission.	See response for 4.1.1	Q1 2023	Q1 2023
	4.2 4.2.1 Human Resources should strongly consider developing and implementing a formal guideline for management that is sent at the time staff start a leave, that provides clear direction on their role and responsibilities for supporting staff on LTD.	Complete – As of June 2022: every LTD package that goes out now has an LTD info Sheet for managers. In addition, additional information on LTD and manager responsibilities has been included in the mandatory Health & Safety for Managers training and has also been included in the PDF Manager Resource Booklet.	Q2 2022	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.2.2 Management should consider creating and implementing a recurring Health and Safety refresher training module to ensure managers are reminded of their responsibilities and equipped with the necessary knowledge to support staff on LTD.	<ul style="list-style-type: none"> - Previous update/plan was put on hold as a review of current corporate training was done in Sept 2022 and it was determined that more content cannot be added for management. - Currently, we are working with Corporate Communications to plan for an Accommodation and Leave page for managers under the Management Centre of Excellence, where manager resources will be posted for reference. 	Q2 2022	Q2 2023
	4.3 4.3.1 Management should review and update the existing SOPs and develop additional procedures where beneficial.	Complete – the SOPs for claims administration was created along with finalizing the other SOPs for the Disability Claims Coordinators.	Q3 2022	N/A
	4.4 4.4.1 Management should develop and implement a standard reporting framework and quality control process that covers claim management administration and compliance requirements.	Complete – This is now being done on a quarterly basis prior to meeting with Sun Life as part of our quarterly meetings.	Q4 2022	N/A
	4.4.2 Management should consider using the Parklane system's reporting functionality and explore additional modules of benefit.	Complete	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.5 4.5.1 Management should review and update the current administration process for tracking and managing claim files and eliminate the need for duplication of systems and information.	Complete – DCC SOP was completed by June 2022 A time can be scheduled with Audit to review the eDocs folder and all the SOP content	Q4 2022	N/A
	4.5.2 Management should develop clear electronic case management practices for the Parklane system.	A review of SOP case management practices continues as we move towards going paperless This work will continue into Q1 2023	Q4 2022	Q2 2023
	4.5.3 Management should consider going paperless with claim files electronically maintained in Parklane. In the interim, alternative options should be explored to eliminate the need for paper files to be stored at employees' personal residences.	<ul style="list-style-type: none"> - The implementation of a paperless operation and SOPs continues to be a project, nearing its end. - There were delays given other attention to COVID Public Health responses, but work will continue into Q1-Q2 2020 	Q4 2022	Q2 2023
	4.5.4 In the interim, Management should review and update the Excel master tracking spreadsheet to ensure that it reflects current claim status and payment information.	Complete	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.6 4.6.1 The Region should review and consider incorporating into the new benefits administration contract the following:			
	a) Specific performance measures relating to the timeliness and effectiveness of claim management.	The special instructions and service level agreements on claims management will be reviewed following implementation of the NEW benefits contract.	Q4 2022	Q1 2023
	b) Requirements for the benefit administrator to verify physicians' license status during the initial claim assessment and annual verification for active claims.	Complete – This has been addressed thought the contract negotiations with Sun Life on benefit fraud actions.	Q4 2022	N/A
	c) Specific audit clause to allow Region Audit Services to conduct audits of the benefit administrator's claim management operations.	Complete – This has been addressed thought the contract negotiations with Sun Life on benefit fraud actions.	Q4 2022	N/A
	d) Consider alternative fee cost structures that are not directly tied to the number of LTD claims.	While we agree there is a risk, the Region's fee structure cannot change as a result of being an ASO (Administrative Services Only) LTD contract. This means we hold the reserves and pay for the administration of each individual claim. This risk would be eliminated if the Region ever turned into an Insured Services Only contract. (original response in Audit Report)	N/A	
	e) Include a provision detailing the role and responsibilities of the benefit provider for completing and reporting on fraud investigations.	Complete – This has been addressed through the contract negotiations with Sun Life on benefit fraud actions.	Q4 2022	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	f) Consider implementing a reporting framework for long duration claims, including confirmation of annual medical and member updates, and adjustments in CPP benefit rate information.	Complete	N/A	N/A
	4.7 4.7.1 Management should review the discrepancy between Parklane and Sun Life reporting and update accordingly.	Complete – This claims audit process using Sun Life data and Parklane is performed as part of the review of each quarterly report.	Q4 2022	N/A
	4.7.2 Management should develop clear electronic case management practices including requirements for case management notes/comments and review date completion. <i>(covered in 4.5.2)</i>	<i>Covered in 4.5.2</i>	Q4 2022	Q2 2023
	4.7.3 In the interim, management should review and update the Excel master tracking spreadsheet to ensure that it reflects current claim status and payment information.	Complete	N/A	N/A
	4.8 4.8.1 Management should request that Sun Life complete notes for all claim file action items and incorporate this requirement into the new contract.	Complete	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.8.2 Management should incorporate into the new contract specific performance measures relating to the timeliness and effectiveness of claim management. <i>(covered in 4.6.1).</i>	This has been addressed thought the contract negotiations with Sun Life and will be further details when the Sun Life Implementation Team is assigned to EHU. At that time the service level agreement and special instructions will be reviewed.	Q4 2022	Q4 2022
	4.8.3 Management should follow up with Sun Life on the two noted outstanding CPP applications and implement measures to ensure pending CPP applications are closely monitored.	Complete	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.9 4.9.1 Management should consider and review the financial impact of not clawing back LTD for CPP annual increase. The Region should make an informed decision on the policy moving forward and ensure it is clearly reflected in the next benefit administrator contract.	<p>Disagree. Region's Benefit Advisor has confirmed that this practice is not wrong - this is an industry standard on how the CPP deduction works. We would be trying to claw back LTD payments when the CPP increases are the employee's only way of receiving a cost-of-living adjustment to payments. This is already taken into consideration under the contract's offsets provision: "under any government plan, law or agency for the same or a subsequent disability, excluding all benefits or payments on behalf of a dependent, employment insurance benefits and automatic cost of living increases that occur after benefits begin". (original response in Audit Report)</p> <p><i>Audit Services note: Management has chosen to accept this risk and not implement an action plan.</i></p>	N/A	
	4.9.2 Management should follow up with Sun Life on the long duration annual update process and request timelier follow-up for reminder notifications on outstanding forms.	Complete	N/A	N/A
	4.9.3 Management should request the benefit administrator to include a specific timeline on both the Plan Member Update form and the Attending Physician's Update form.	Complete	N/A	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.9.4 Management should consider requesting that the benefit administrator automate the long duration annual follow-up dates.	Completed – This has been addressed with Sun Life and they did confirm that a timeline for this process exists. This continues to be monitored for compliance with the SL Manager when sending the quarterly updates on claim activity.	Q2 2022	N/A
	4.9.5 Management should request Sun Life to set the long duration annual follow-up dates for every 12 months in line with contract requirements.	Completed – This has been addressed with Sun Life and they did confirm that a timeline for this process exists. This continues to be monitored for compliance with the SL Manager when sending the quarterly updates on claim activity	Q2 2022	N/A
	4.10 4.10.1 Management should strongly consider transferring the payment processing to the benefit administrator to help minimize overpayments. <i>Refer to Observation 4.1 – Payment Process.</i>	This will be in place for Jan 2023, as this is when the new contract begins.	Q1 2023	Q1 2023
	4.10.2 Management should increase oversight on CPP application status, especially for staff approaching age 65.	Complete – This has been addressed with Sun Life and they have added a column for age on the CPP/Long Duration spreadsheet for all to have line of sight to the long duration status claims.	Q2 2022	N/A

Audit Report	Recommendation	Management response	Original due date	Current due date
	4.10.3 Management should finalize the SOP for overpayment collections.	Complete	N/A	N/A
	4.10.4 Management should consider using, as defined in the SOP, collection agencies on vendor of record at the Region within Court Services.	Complete	N/A	N/A
	4.10.5 Management should develop a formal policy on recovery of identified overpayments and work with Legal Services to explore opportunities to terminate employees for nonpayment.	Formal overpayment policy was shared with last Audit update. A discussion with Legal and Audit will take place in Q4 2022.	Q2 2022	Q4 2022
	4.10.6 Management should review the current overpayments and work with Finance to resolve the status of uncollectible accounts.	This is an ongoing activity and cases are being reviewed on a case-by-case basis.	Q2 2022	Q1 2023

eDocs# 14428460

The Regional Municipality of York

Audit Committee
January 26, 2023

Report of the Director, Audit Services

2022 Quality Assessment Results

1. Recommendations

1. Council receive this report for information.

2. Summary

This report provides the Audit Committee the results of the Audit Services Branch 2022 Quality Assessment of the internal audit activity.

Key Points:

- The *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) issued by the Institute of Internal Auditors requires that an external quality assessment of an internal audit activity must be conducted at least once every five years
- The self-assessment results indicate York Region's Audit Services Branch is in conformance with the *Standards* and Code of Ethics
- Independent validation by an external assessor concurred fully with the results of the self-assessment
- Audit Services (internal audit activity) received the top rating achievable which is generally conforms
- The self-assessment process highlights successful internal audit practices and identifies opportunities for improvements

3. Background

The Institute of Internal Auditors (IIA) is the global internal audit profession's leader in standards, certification, education, research and technical guidance. The *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) issued by the IIA require that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The last Quality Assessment was conducted in 2017.

The Quality Assessment (QA) can be accomplished through a full external assessment or a self-assessment with independent validation. York Region Audit Services Branch conducted a self-assessment of its internal audit activity and selected IIA Quality Services, LLC as the qualified, independent external validator to conduct a validation of the self-assessment.

4. Analysis

Based on the self-assessment, it is our overall opinion that Audit Services (internal audit activity) at York Region generally conforms with the *Standards* and the Code of Ethics. Generally conforms is the top rating achievable through the Quality Assessment process. This rating indicates that the internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and Code of Ethics. Independent validation by the external validator concurred fully with the results of the self assessment. The full report which includes the results of the Quality Assessment, the overall conclusion and the Independent Validation Statement is included in Attachment 1.

Audit Services Branch supports Vision

Audit Services supports Vision through its service offerings including assurance and consulting engagements and investigative services. A core element of Audit Services is to add value and improve the organization's operations through the evaluating of the effectiveness of the organization's governance, risk management and controls processes.

5. Financial

The Quality Assessment was funded with the Audit Services approved 2022 budget.

6. Local Impact

Audit Services provides audit services to 7 of the 9 municipalities under an Agreement. The Quality Assessment provides assurance to the partner municipalities that the services provided are in compliance with the IIA *Standards* and Code of Ethics.

7. Conclusion

Audit Services has completed the Quality Assessment through a self-assessment with external validation as required by the IIA *Standards*. Audit Services received the top ranking achievable which is generally conforms. The external validator concurred with the results. The next Quality Assessment for Audit Services (internal audit activity) will be due in 2027.

For more information on this report, please contact Michelle Morris, Director, Audit Services at 1-877-464-9675 ext. 71205. Accessible formats or communication supports are available upon request.

Recommended by: **Michelle Morris**
Director, Audit Services

Attachments (1)
eDocs# 14428676 – Audit Services Quality Assessment (Details)

eDOCS # 14428551



2022 Quality Assessment Results

Authored by: Michelle Morris, David Fanone, Bak Ikram

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1.0 Management Summary

The Institute of Internal Auditors (IIA) is the global internal audit profession's leader in standards, certification, education, research and technical guidance. The *International Standards for the Professional Practice of Internal Auditing* ("the *Standards*") issued by the IIA require that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

The chief audit executive (CAE) discussed the form and frequency of the QA, as well as the independence and qualifications of the external validator, including any potential conflicts of interest in the announcement email to senior management and members of the Audit Committee on August 18, 2022. York Region Audit Services Branch conducted a self-assessment of its internal audit activity and selected IIA Quality Services, LLC as the qualified, independent external validator to conduct a validation of the self-assessment of Audit Services of York Region.

2.0 Introduction

The Audit Services Branch at York Region provides independent, objective assurance and consulting services designed to add value and improve York Region's operations. To help ensure the independence of the audit function, the Director, Audit Services is the Chief Audit Executive (CAE) and reports functionally to York Region Audit Committee and administratively to the Chief Administrative Officer.

3.0 Opinion

It is our overall opinion that Audit Services (internal audit activity) at York Region generally conforms with the *Standards* and the Code of Ethics. A detailed list of conformance with the individual standards and Code of Ethics is shown in Appendix I – Attachment A. Independent validation by the external validator concurred fully with the results of the self-assessment. Audit Services received the top rating achievable which is Generally Conforms.

The IIA's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity, which are as follows:

- Generally Conforms - means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics
- Partially Conforms - means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner
- Does Not Conform – means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities

A detailed description of conformance criteria can be found in Appendix I - Attachment A Evaluation Summary and Rating Definitions.

4.0 Objectives, Scope and Methodology

OBJECTIVES

The objectives of the Quality Assessment included:

- An assessment of Audit Services' conformance with the *Standards* and the Code of Ethics
- An evaluation of Audit Services' effectiveness in carrying out its mission as set forth in the Audit Services Branch Charter and expressed in the expectations of York Region's management; identification of successful internal audit practices demonstrated by Audit Services; and identification of opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to our stakeholders.
- A validation of the results of Audit Services' self-assessment by an external independent validator. The main focus was to validate the conclusion of Audit Services related to conformance with the *Standards* and the Code of Ethics. They also reviewed Audit Services' observations related to successful internal audit practices and opportunities for continuous improvement. They offered additional observations as they deemed appropriate.

SCOPE

The scope of the Quality Assessment included:

- The internal audit activity at York Region. The scope of the work of the internal audit activity at York Region is described in the Audit Services Branch Charter.
- The Quality Assessment was concluded November 16, 2022 and provides senior management, Audit Committee, and Regional Council with information about the internal audit activity as of that date.
- The Standards and the Code of Ethics in place and effective as of November 16, 2022 were the basis for the Quality Assessment.

METHODOLOGY

- Audit Services compiled and prepared information consistent with the methodology established in the *Quality Assessment Manual for the Internal Audit Activity*. This information included detailed planning guides with all supporting documentation; an evaluation summary documenting all conclusions and observations; and the self-assessment report by Audit Services.
- Audit Services identified key stakeholders (Audit Services staff, senior management, Regional Chair, Audit Committee Chair, and the external auditors) and sent surveys

to each individual identified. The results were tabulated by IIA Quality Services, LLC to maintain confidentiality in responses. Anonymized survey results were shared with Audit Services during their self-assessment process.

- Prior to commencement of the on-site validation portion of the Audit Services self-assessment, IIA Quality Services, LLC held a preliminary meeting with Audit Services to discuss the status of preparation of the self-assessment, identification of key stakeholders to be interviewed during the on-site validation, and finalization of logistics related to the QA.
- IIA Quality Services, LLC through the Validator reviewed information prepared by Audit Services and the conclusions reached in the Quality Assessment report. The Validator also conducted interviews with selected key stakeholders, including the Audit Committee Chair, the Chief Administrative Officer, the Commissioner, Community and Health Services, the Commissioner, Public Works, the Commissioner of Finance & Regional Treasurer, external auditors, and Audit Services management and staff; reviewed a sample of audit projects and associated workpapers and reports; reviewed survey data received from York Region stakeholders and Audit Services management and staff; and prepared diagnostic tools consistent with the methodology established for an QA in the *Quality Assessment Manual for the Internal Audit Activity*.
- The Validator prepared an “Independent Validation Statement” (Appendix II – Attachment B) to document conclusions related to the validation of Audit Services’ self-assessment. This statement is included as Appendix II - Attachment B to this report.

5.0 Observations

Audit Services believes that the environment within our branch is well structured and progressive, where the *Standards* are understood, the Code of Ethics is followed, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where the internal audit activity is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items is intended to provide stakeholders with a view on things Audit Services is doing in a leading practice manner when compared to other internal audit activities. Successful internal audit practices identified are summarized and detailed in Table 1 of this report. Highlights of a few success practices are highlighted below:
 - Standard 1000 – Purpose, Authority, and Responsibility – The Audit Services Branch Charter is comprehensive and contains the mandatory elements of the International Professional Practices Framework.

- Standard 1200 – Proficiency and Due Professional Care – Staff within the audit Services Branch are competent and committed to continuing their education, which is also required to uphold the various designations required for their role within the Region.
- Standard 2000 – Managing the Internal Audit Activity – Audit Services has a well established Corporate Wide Risk Assessment process to inform the Annual Risk-based Work Plan that is aligned to the Region’s Strategic Plan.
- **Gaps to Conformance** – Areas identified where Audit Services is operating in a manner that falls short of achieving one or more major objectives and attains an opinion of “Partially Conforms” or “Does Not Conform” with the *Standards* or the Code of Ethics. These items will include recommendations for actions needed to be “Generally in Conformance,” and will include an Audit services response and an action plan to address the gap. Gaps to conformance with the *Standards* or Code of Ethics identified are summarized and detailed In Table 2. Highlights to the gaps to conformance are noted below:
 - Standard 1311 – Internal Assessments – The periodic internal assessment process should be formally documented and executed on an annual basis. Processes exist for the on-going monitoring at the engagement level; however, gaps exist for the overall periodic internal assessment process.
 - Standard 1320 – Reporting on the Quality Assurance and Improvement Program – The results of the periodic internal assessment process and the external assessment process must be communicated to Senior Management and Audit Committee. There are opportunities to present the internal assessment process through dashboard reporting.
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of Audit Services’ infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted are normally included. Opportunities for continuous improvement identified are summarized and detailed in Table 3. Highlights on opportunities for continuous improvement are noted below:
 - Standard 1000 – Purpose, Authority, and Responsibility – That the CAE review the Audit Services Branch and the Audit Committee Charters annually and log to a template to provide sufficient evidence on file of review and sign off.
 - Standard 1210 – Proficiency – To continue to improve the risk analysis and control assessment techniques as we move toward the implementation of audit software.
 - Standard 2000 – Managing the Internal Audit Activity – The inclusion of a forecast of Year 2 and 3 audit projects to demonstrate audit coverage in the Risk-based Work Plan for management use.

Details of Success Internal Audit Practices are in Table 1 below:

Table 1

Successful Practices:	
Item	Standard(s)
1. The Audit Services Branch Charter was established September 2020 and developed through an environmental scan of 12 other municipal Internal Audit Charters and the supplemental Guidance of the IPPF on the Model Internal Audit Activity Charter. It was reviewed by Senior Management, endorsed by Audit Committee on January 21, 2021 and approved by Regional Council on January 28, 2021.	1000 – Purpose, Authority, and Responsibility 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter 1110 – Organizational Independence
2. The recognition of Internal Audit Month in May of each year to raise awareness of the internal audit activity at York Region with staff. The campaigns have run virtual as a result of Covid-19 for years 2021 and 2022.	1000 – Purpose, Authority, and Responsibility
3. Audit Services staff annually review the Code of Ethics and sign off. A template is maintained within the Audit Services Branch shared drive to provide sufficient evidence of staff attestation. The practice has been in place for three years.	1100 – Independence and Objectivity
4. The introduction of the Internal Quality Partner (IQP) role. The IQP provides insights to the senior internal auditor and each milestone of the audit and help ensure compliance with the Standards. Evidence of the IQP's review is noted in a template in each audit file folder.	1300 – Quality Assurance and Improvement Program 1311 – Internal Assessments – Ongoing Monitoring
5. Competent staff who are committed to continuing their education, which is also required to uphold the various designations required for their role at the Region.	1200 – Proficiency and Due Professional Care 1230 – Continuing Professional Development
6. Staff use of data analytics to support controls monitoring at the Region.	1200 – Proficiency and Due Professional Care
7. A well-established Audit Services Corporate Wide Risk Assessment process to inform the Annual Risk-Based Work Plan that is aligned to York Region's Strategic Plan.	2000 – Managing the Internal Audit Activity 2010 – Planning 2120 – Risk Management

Successful Practices:	
Item	Standard(s)
8. The launch of the Fraud Prevention Program which include the draft Fraud Prevention Policy, the Fraud Risk Assessment and an established investigation process.	2100 – Nature of Work 2110 – Governance 2120 – Risk Management
9. The audit process is well structured and makes use of templates to guide each stage of the engagement to ensure compliance with the Standards. Templates include engagement letter, engagement-level risk assessment process, IQP review and report.	2200 – Engagement Planning 2300 – Performing the Engagement 2400 – Communicating Results
10. Audit reports are clear and concise and readily accepted by management. As confirmed in the survey, clients appreciate the value add of both assurance and consulting engagements.	2400 – Communicating Results 2410 – Criteria for Communicating
11. The Status of Management Action Plans process is well-established entrenched within the organization. Management is aware of the obligation for follow up responses, and it is reported semi-annually to Audit Committee.	2500 – Monitoring Progress

Details of gaps to Conformance with the Standards of the Code of Conduct and management's response are in Table 2 below:

Table 2

Gaps (Partial Conformance):		
Item	Standard(s)	Audit Services Response
1. The periodic internal assessment process should be formally documented and executed on an annual basis. Processes exist for the on-going monitoring at the engagement level; however, gaps exist for the overall periodic internal assessment process.	1311 – Internal Assessments	The Director, Audit Services will develop the internal audit activity internal assessment process to include: <ul style="list-style-type: none"> • Ongoing monitoring of the performance of the internal audit activity • Periodic self-assessments by staff with sufficient knowledge of the Standards • Feedback from Internal Quality Partners on the

Gaps (Partial Conformance):		
Item	Standard(s)	Audit Services Response
		<p>overall quality of internal audit work in conformance with Standards</p> <p>Target date: March 31, 2023</p>
2. The results of the periodic internal assessment process and the external assessment process must be communicated to Senior Management and Audit Committee. There are opportunities to present the internal assessment process through dashboard reporting. The external assessment for 2022 will be going forward to Senior Management and the Audit Committee.	1320 - Reporting on the Quality assurance and Improvement program	<p>The Director, Audit Services will report the results of the internal assessment process commencing in 2024 in alignment with the Audit Services Branch Charter.</p> <p>The results of the Self-assessment with independent validation will be reported to Audit Committee in January 2023. The next Quality Assurance with independent validation will be due in 2027.</p> <p>Target date: January 31, 2024</p>

Details of Opportunities for Continuous Improvement and Management's response are in Table 3 below:

Table 3

Improvement Opportunities:		
Item	Standard(s)	Audit Services Response
1. The CAE review of the Audit Services Branch Charter and Audit Committee Charter should be reviewed annually and logged to a template to provide sufficient evidence on file of review and sign off.	1000 – Purpose, authority, and Responsibility	<p>The Director, Audit Services will conduct annual reviews of the Audit Services Branch Charter and the Audit Committee Charter. Reviews of the Charters will be documented in a template indicating date reviewed and signoff.</p> <p>Any changes required as part of the review process will be brought forward to Audit Committee and Regional Council for approval.</p> <p>Target date: September 30, 2023</p>
2. To continue to improve the risk analysis and control assessment techniques as	1200 – proficiency and Due	The Audit Services Branch is in the process of implementing an audit software solution that will automate

Improvement Opportunities:		
Item	Standard(s)	Audit Services Response
we move toward the implementation of audit software.	Professional Care	the audit process including risk analysis and controls assessment techniques. Target date: February 28, 2023
3. The inclusion of Standard 2600 Communicating the Acceptance of Risks in the updated Audit Services procedures Manual.	2600 – Communicating the Acceptance of Risks	The Director, Audit Services is in the process of refreshing the Audit Services Manual. The refreshed manual includes a subsection 3.7 Communicating the acceptance of Risks. Target date: January 31, 2023
4. The Risk-Based Work Plan includes audit projects for the current year, there is an opportunity to include a forecast of audit projects for Year 2 and 3 to inform management of potential audits scheduled to take place within their departments.	2000 – Managing the Internal Audit Activity 2010 - Planning	The Director, Audit Services will add for management use the inclusion of forecasted audit projects for Year 2 and Year 3 so management will be informed of projects schedule in their departments. Target date: December 31, 2022
5. To ensure compliance with the Standards, evaluate the design, implementation, and effectiveness of the Region's ethic-related objectives through the consideration of a Code of Conduct and/ or cultural audit.	2110.A1 – Governance (Ethics)	The Director, Audit Services will consider the inclusion of a Code of Conduct and/ or cultural audit in the 2024 Risk-based Work Plan. This review would consider the design, implementation and the effectiveness of the Region's ethics-related objectives and programs. Target date: December 31, 2023

APPENDIX 1 – ATTACHMENT A

Evaluation Summary and Rating Definitions

	GC	PC	DNC
Overall Evaluation	✓		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		

		GC	PC	DNC
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments		✓	
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance and Improvement Program		✓	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
1322	Disclosure of Nonconformance	✓		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination and Reliance	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓		

2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		

2421	Errors and Omissions	✓		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

Code of Ethics		GC	PC	DNC
	Code of Ethics	✓		

RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in

recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

APPENDIX II – ATTACHMENT B

Overall Conclusion and Independent Validation Statement

Overall Conclusion

York Region

We concur with the Internal Audit Department's self-assessment that it **generally conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

This level of conformance demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	GC	2300	GC
1300	GC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



Keltie Donohue

Keltie Donohue, CPA, CIA
Independent Assessor
IIA Quality Services

Warren Hersh

Warren Hersh, CIA, CPA, CISA, CFE
Director, IIA Quality Services
IIA Quality Services


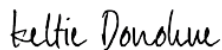
GC = Generally Conforms PC = Partially Conforms DNC = Does Not Conform

Independent Validation Statement

I was engaged as an Independent Assessor to conduct an independent validation of the self-assessment of York Region's internal audit activity. The primary objective of my validation was to verify the assertions made in the attached self-assessment report concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)* and the IIA Code of Ethics. Other matters that may have been covered in a full independent assessment (such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology) were excluded from the scope of this independent validation by agreement with the Chief Audit Executive.

In acting as an Independent Assessor, I attest to being fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. My validation primarily consisted of a review and testing of the procedures and results of the self-assessment during the period October 11-17, 2022. In addition, interviews were conducted with the Chair of the Audit Committee, Chief Administrative Officer, Chief Financial Officer, and other senior executives and the external auditor.

I fully concur with the internal audit activity's conclusions in its self-assessment report. Implementation of the recommendations contained in the self-assessment report will enhance the value of the internal audit activity and ensure its continued conformity to the *Standards*.



Keltie Donohue, CPA, CIA
Independent Assessor
IIA Quality Services

The Regional Municipality of York

Audit Committee
January 26, 2023

Report of the Director, Audit Services

2023 Risk Based Work Plan

1. Recommendations

1. Regional Council approve the Audit Services Branch's 2023 Risk-Based Work Plan (Attachment 1).

2. Summary

- This report provides Audit Services' 2023 Risk-Based Work Plan (Work Plan) for Council's approval (Attachment 1). The Work Plan is flexible and dynamic to allow for changes in response to the Region's changing priorities.
- Throughout the pandemic, Audit Services experienced an increased demand for consulting engagements, requiring the allocation of more time and resources than originally budgeted.
- This report informs Council of the risk assessment methodology used by the Region's Director, Audit Services to conduct a Region-wide risk assessment. This risk assessment is one component for developing the 2023 Risk-Based Work Plan.
- Audit Services confirms their ability to independently and objectively carry out the audits identified in the 2023 Risk-Based Work Plan. Through the budget process, Audit Services has been allocated sufficient resources to deliver the Work Plan.

3. Background

The Region's Audit Services Branch follows the *International Standards for the Professional Practice of Internal Auditing* ("Standards") as defined by the International Institute of Internal Auditors. The *Standards* state that: "the chief audit executive must establish a risk-based plan to determine priorities of the internal audit activity, consistent with the organization's goals". The *Standards* require that "the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually."

The Region's risk landscape has been fundamentally altered by the ongoing pandemic. Consistent with last year, Audit Services has prepared a one-year risk-based work plan for 2023 for Council's approval.

The *Standards* require that the Director, Audit Services confirm to the board, at least annually, the organizational independence of the internal audit activity. Organizational independence requires the audit function to be free of interference in determining the scope of internal auditing, performing audit work, and communicating audit results.

The Audit Services Branch, through its service offerings including assurance, consulting and investigation services, assists the Region in achieving its goals and community results areas in Vision 2051 under Open and Responsive Governance and in the 2019 to 2023 Strategic Plan under Good Government. The internal audit activity is designed to add value and improve an organization's operations through a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and processes.

4. Analysis

Risk Assessment

Audit Services identified five areas of risk that were assessed, as summarized in Table 1 below.

Table 1
Risk Categories

Risk Categories	Description of Risk
Strategic	Risks that may prevent the achievement of business outcomes and objectives. Exposure to loss resulting from a lack of response to the changing business environment, adverse business decisions, and/ or improper implementation of decisions.
Operational	The risk of loss from people, systems, internal procedures or events which have the potential for the organization to deviate from its objectives and outcomes. Day-to-day risks typically managed by mid-level management and staff.
Reputational	Risk associated with negative publicity, perceived or real, regarding Regional business practices, actions or inactions which could cause a decline in the public's trust and confidence.

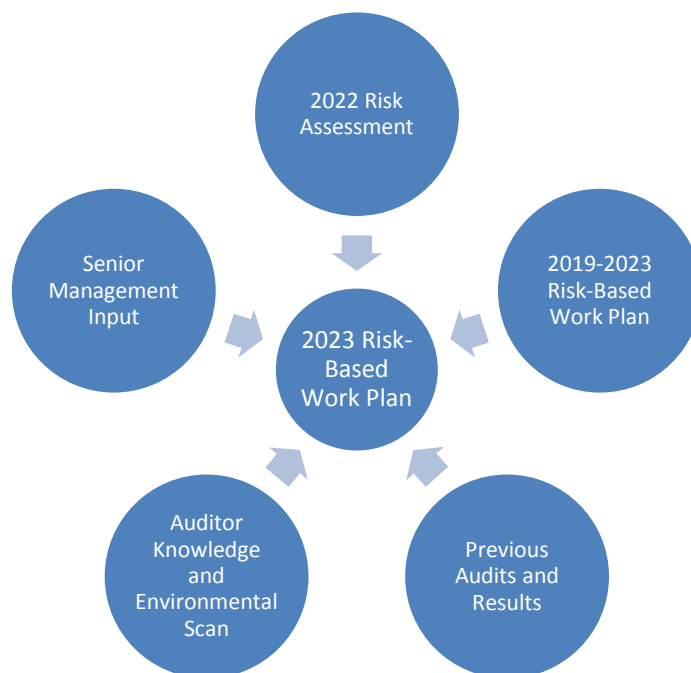
Risk Categories	Description of Risk
Compliance	The risks associated with non-compliance with laws, legislation, regulation or policy. Non-compliance may be due to the complexity of the legislation and various regulatory requirements across multiple business lines.
Financial	Risk that the organization may not have adequate cash flow to sustain financial obligations.

Audit Services developed a questionnaire with statements related to each of the five risk categories, and employed a combination of in-person interviews and emailed surveys to gather insight from forty-eight Directors, Managers and General Managers across the organization. Audit Services assigned a numeric value to each response in the questionnaire and calculated the overall relative risk associated with each risk area. These values were used to calculate the overall risk ranking for each service and sub-service.

Audit Plan

In developing the 2023 Risk-Based Work Plan (Attachment 1), Audit Services incorporated information from different sources as outlined in Chart 1 below.

Chart 1
Risk Prioritization Summary



The Work Plan is intended to be flexible and dynamic to respond to the Region's changing priorities. It includes time for management requests and investigations, which are inherently unpredictable and occur throughout the year. The Work Plan also includes time for the fraud prevention program, outreach and process improvement initiatives, follow up on outstanding management action plans and controls monitoring.

5. Financial

The Audit Services Branch will manage its workload within the Audit Services budget. Through the budget process, Audit Services has been allocated sufficient resources to deliver the Work Plan.

6. Local Impact

The Audit Services Branch continues to provide audit and consulting services to seven of the local municipalities through an Audit Services Memorandum of Understanding, on a cost recovery basis. A similar exercise of risk assessment and audit planning is conducted at the local municipalities.

7. Conclusion

The Audit Services Branch's 2023 Risk-Based Work Plan was developed using a risk assessment methodology to determine how to best allocate audit and consulting resources across the Region.

For more information on this report, please contact Michelle Morris, Director Audit Services at 1-877-464-9675 ext. 71205. Accessible formats or communication supports are available upon request.

Recommended by:

Michelle Morris
Director, Audit Services

December 6, 2022

Attachment (1) eDocs# 14428788 – Audit Services 2023 Risk Based Work Plan (Details)
eDOCS # 14428761

Attachment 1 - Audit Services Branch 2023 Risk-Based Work Plan

Alignment with 2019 to 2023 Strategic Plan	Department/Branch	Project	Risk and Rationale for Audit
Economic Vitality	Transportation Services - Transit Operations	Bus Operations Contracts	There are a significant number of high value contracts in place. There are new contracts in place since the last time Audit Services audited this area. Assurance should be provided to ensure that contracts are being managed appropriately.
Good Government	Legal Services - Court Services	Revenue Management	Court Services provides front counter services to the public to pay tickets. Assurance should be provided that Court Services has effective controls in place for cash handling. (In progress)
	Finance - Strategy & Transformation	Payroll Audit	This area processes pay for over 4,000 salaried and hourly employees on a bi-weekly basis. Further, the Region collects and stores private and sensitive employee data in order to accurately pay individuals. There is a risk that private information may be compromised and a risk of errors in pay resulting in under or overpayments to employees. (In progress)
	Finance	Procurement	The Procurement Office currently has several initiatives to modernize the Region's procurement function. A new Procurement bylaw has recently been enacted. COVID-19 has placed a strain on resources and there has been employee turnover.

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	Finance - Controllership Office & Deputy Treasurer	PCI Compliance	Various branches within Public Works, Legal, Community & Health Services, Corporate Services, and Finance handle credit card information for payments by customers. Approximately 257K transactions were processed in 2021. The Payment Card Industry Security Standards Council (PCI SSC) sets standards for handling credit card information. Assurance should be provided to ensure that the Region is in compliance with PCI SSC. (In progress)
Healthy Communities	Community and Health Services – Shelter Operations	Shelter Operations	York Region contracts out the operation of shelters offering short-term and long-term accommodations along with other supports, such as counselling, meals, recreation and emergency transportation. Assurance should be provided that the contracts are being managed appropriately.
	Community and Health Services – Long-Term Care Homes	Long-Term Care Homes	York Region provides services to promote the health, well-being, safety and independence of individuals requiring care. Assurance should be provided that the management systems in place to administer the long-term care homes are operating as intended.

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Plan

Plan	Department/Branch	Project	Risk and Rationale for Audit
Sustainable Environment	Environmental Services - Environmental Promotion & Protection	Waste management agreements between Region and the local municipalities	Contamination of blue box materials has been a significant challenge. There is additional cost in processing contaminated blue box materials. Assurance should be provided to ensure there is an appropriate process used to manage these agreements with the local municipalities.
	Environmental Services - Operations Maintenance & Monitoring	SCADA/Cybersecurity Audit	Network security of the Region's SCADA system. Third party provider required to conduct the audit. (In progress)

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