

Inherent Risk Assessment Methodology for City of Burlington

Updated Jan 2022

Risk Factors and Associated Criteria

The City Auditor's Annual Audit Plan is established based on the assessment of risks and exposures in City services. The assessed risk is "inherent risk"; that is, the total risk without controls or raw risk. The level of inherent risk (as determined through risk factors) is used to ensure significant risks are addressed and there is effective use of audit resources.

Inherent Risk Factors

Risk factors include quantitative and qualitative criteria and attributes used to identify areas of City operations that would benefit most from an internal audit. Inherent risk is determined by considering all the factors; not just an individual factor. However, not all factors are considered equal. A weighting is applied to each factor to reflect their relative importance (which is a matter for judgment) based on business practices, legislation and regulations, and Council's strategic plan.

There are many risk factors that can be used in assessing inherent risk. For example, quantitative criteria may include: size of the budget and payroll, number of employees, value of capital equipment, the time elapsed since the last audit, client satisfaction, and extent of partnering/alliances. Qualitative criteria may include: areas of concern to management, possibility of adverse publicity, complexity of IT infrastructure, the effect of governmental or other regulations, technological innovation and information integrity.

The inherent risk factors must be tailored to the City and its operating environment.

Calculating the Overall Inherent Risk Ranking

The overall inherent risk ranking is calculated using the following formula:

OVERALL INHERENT RISK RANKING SCORE = Σ (INHERENT RISK ATTRIBUTE RANKING SCORE
x FACTOR WEIGHTING)

Risk assessed audit entities will be listed from highest to lowest score.

Inherent Risk Assessment for Audit Units

The following table contains the factors and a set of attributes for each criterion to assist in assessing the inherent risk of the service and/or sub-service.

Inherent Risk Factors and Criteria for Services

Factor (Weighting) & Criteria	Inherent Risk Attribute Ranking (Score)				
	Very High (100)	High (75)	Moderate (50)	Low (25)	Very Low (1)
Complexity of Service Delivery (30%) <ul style="list-style-type: none"> • Nature of technology/equipment used in service delivery (e.g. sophisticated vs. simple) • Degree of customization of process (e.g. customized vs. standardized) • Number of people involved in service delivery • Service delivery sites (e.g. multi-site/counter vs. single site/counter) • Level of exposure to hazardous activity (<u>physical health & safety</u>) 	<ul style="list-style-type: none"> – Requires sophisticated technology/equipment with multiple interfaces – Customized process for each transaction – More than 30 people involved in delivering the service – Multi-site/counter service delivery (>5) sites/counters <u>AND</u> contracted services – Work involves daily exposure to high hazard activity (e.g. use of heavy machinery/small equipment, working at heights, chemical handling, working in traffic, etc.) 	<ul style="list-style-type: none"> – Requires sophisticated technology/equipment with minimal interfaces – Specialized process for majority of transactions; standardized process for less than a quarter of transactions – 22 - 29 people involved in delivering the service – Multi-site/counter service delivery (>5) sites/counters <u>OR</u> contracted services – Work involves frequent exposure to high hazard activity (e.g. use of heavy machinery/small equipment, working at heights, chemical handling, working in traffic, etc.) 	<ul style="list-style-type: none"> – Requires standalone sophisticated technology/equipment – Standardized process for half of transactions; remaining transactions require exceptions to process "rules" – 11 - 21 people involved in delivering the service – Multi-site/counter service delivery (from 3 – 4 sites/counters) – Work involves repeated exposure to manual labour (e.g. lifting, pushing, pulling, digging, etc.) 	<ul style="list-style-type: none"> – Requires simple technology/equipment with few interfaces – Standardized process for three quarters of transactions; minimal exceptions to process "rules" required – 6 - 10 people involved in delivering the service – Multi-site/counter service delivery (from 2 - 3 sites/counters) – Work involves daily exposure to low hazard activity (e.g. use of computers, desk work, repetitive movement, etc.) 	<ul style="list-style-type: none"> – Requires standalone simple technology/equipment – Standardized process for all transactions (same process each time; no exceptions) – 1 - 5 people involved in delivering the service – Single site/counter service delivery (from one site/counter) – Work involves limited exposure to low hazard activity (e.g. use of computers, desk work, etc.) <u>OR</u> remote work environment

Inherent Risk Assessment for Audit Units

Factor (Weighting) & Criteria	Inherent Risk Attribute Ranking (Score)				
	Very High (100)	High (75)	Moderate (50)	Low (25)	Very Low (1)
<ul style="list-style-type: none"> Level of disruption and complexity of business continuity due to pandemic/ other emergencies 	<ul style="list-style-type: none"> Catastrophic disruption to traditional business model impacting a majority of staff including lay-offs or re-deployments; budget variance of >50%; unable to provide service to customers for 4 weeks or longer. Transforming business model requires significant staff involvement, financial resources, Council approval and stakeholder consultation. 	<ul style="list-style-type: none"> Significant disruption to business model. A majority of staff involved in delivering the service are impacted, significant budget variance >25% and customers are unable to receive the service for 2-4 weeks. Recovery to the business process is expected to take weeks, require >\$100,000 new funding and involve a majority of staff to re-engineer the process. 	<ul style="list-style-type: none"> Moderate disruption to business model. Service can be modified/restored within 5-15 business days however will require financial resources (\$10,001-\$99,999) and a majority of staff to execute changes. Most customers are impacted, though some simple service transactions may continue manually through work-arounds. 	<ul style="list-style-type: none"> Modest impact of service delivery. Service model can be quickly modified with limited (i.e. <\$10,000) financial resources and quick turnaround by staff (i.e. 0-5 business days). Modest disruption to customers, although manual workarounds can be easily adopted. 	<ul style="list-style-type: none"> Nominal impact to business model and service delivery. Staff continue to provide services to customers with limited impact to financial budget or customer expectations.

Inherent Risk Assessment for Audit Units

Financial Materiality & Susceptibility to Error/Fraud (25%)						
• Gross revenue (excluding recovery from capital)	– > \$400,000	– Between \$250,001 and \$399,999	– Between \$100,001 and \$250,000	– Between \$25,001 and \$100,000	– < \$25,000	
• Gross operating expenditures (including human resource costs and excluding one-time project costs)	– > \$2,000,000	– Between \$1,000,000 and \$1,999,999	– Between \$500,000 and \$999,999	– Between \$250,000 and \$499,999	– < \$250,000	
• Transparency/openness to scrutiny	– One person responsible for tracking, reporting and monitoring	– Limited number (1-2) of people involved in tracking, reporting and monitoring	– Small group (3-4) of people involved in tracking, reporting and monitoring	– Group (5-6) of people involved in tracking, reporting and monitoring	– Larger number of people (6+) involved in tracking, reporting and monitoring	
• Nature of Assets Used in Service Delivery (i.e. tangible/intangible, convertibility to cash)	– Liquid (e.g. cash includes cheques and debit/credit card, bonds, etc.)	– Easily converted to cash (i.e. < 14 days); readily available market; highly liquid	– Can be converted to cash (i.e. between 15 days and 29 days); market is specialized; somewhat liquid	– Difficult to convert to cash (i.e. 30 days); small market	– No cash value; not liquid	
• Involvement in known risk areas of misconduct ¹	– Involved in more than one of procurement/contracting, approvals/permits and licensing, by-law enforcement		– Involved in any of procurement/contracting, approvals/permits and licensing, by-law enforcement		– Not involved in any of procurement/contracting, approvals/permits and licensing or by-law enforcement	
• Dollar value of daily cash deposits	– greater than \$5,001	– between \$2,501 and \$5,000	– between \$1,501 and \$2,500	– between \$251 and \$1,500	– less than \$250	
Community Trust/Reputation (10%)						

Deleted: <#>Staffing level between 76% and 89% of full complement¶¶ <#>¶¶

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Deleted: <#>Extent of staff complement vacancy¶¶ <#>¶¶

Deleted: Exposure to Scrutiny

¹ International Centre for Criminal Law Reform and Criminal Justice Policy, *Municipal "Best Practices": Preventing Fraud, Bribery and Corruption* (Vancouver: ICCLR 2013) <<http://icclr.law.ubc.ca/sites/icclr.law.ubc.ca/files/publications/pdfs/Municipal%20Best%20Practices%20-%20Preventing%20Fraud,%20Bribery%20and%20Corruption%20FINAL.pdf>>

Inherent Risk Assessment for Audit Units

<ul style="list-style-type: none"> • Degree of public/external customer involvement • Degree of internal customer involvement • History of media attention (e.g. newspapers, blogs, op eds, etc.) • Employee Base Involved 	<ul style="list-style-type: none"> – Everyday direct involvement of public/external customers – Everyday direct involvement of internal customers – Subject of regular and sustained media attention – Every employee involved 	<ul style="list-style-type: none"> – Frequent direct involvement of public/external customers – Frequent direct involvement of internal customers – Subject of frequent media attention – More than three-quarters of employees involved 	<ul style="list-style-type: none"> – Periodic direct involvement of public/external customers – Periodic direct involvement of internal customers – Subject of minimal or short-lived media attention – Half of employees involved 	<ul style="list-style-type: none"> – Infrequent direct involvement of public/external customers – Infrequent direct involvement of internal customers – Subject of infrequent media attention – More than one-quarter of employees involved 	<ul style="list-style-type: none"> – Rare direct involvement of public/external customers – Rare direct involvement of internal customers – Never been subject of media attention – Less than one-quarter or one group of employees involved
<p>Degree of Change (20%) (over last 12 months and expected within next 6 months)</p> <ul style="list-style-type: none"> • Changes to service and/or processes • Technology/equipment change 	<ul style="list-style-type: none"> – Totally new service and/or delivery process(es) – Implemented new software/hardware/equipment to support service 	<ul style="list-style-type: none"> – Multiple/major changes to service and/or delivery process(es) – Major upgrade or update to <u>all</u> software/hardware/equipment to support service 	<ul style="list-style-type: none"> – Small number changes to service and/or delivery process(es) – Major upgrade or update to <u>some</u> software/hardware/equipment to support service 	<ul style="list-style-type: none"> – Infrequent/minor changes to service and/or delivery process(es) – Minor upgrade or update to all or some software/hardware/equipment to support service 	<ul style="list-style-type: none"> – No changes to service and/or delivery process(es) – No changes to software/hardware/equipment to support service

Inherent Risk Assessment for Audit Units

HR/Staffing Factors (15%)					
<ul style="list-style-type: none"> Staff turnover (due to reasons such as retirement, leaves of absence, job rotations, etc.) 	<ul style="list-style-type: none"> More than <u>35%</u> of all staff has changed in last year 	<ul style="list-style-type: none"> Between <u>24%</u> - <u>34%</u> of all staff have changed in last year 	<ul style="list-style-type: none"> Between <u>14%</u> - <u>24%</u> of all staff have changed in last year 	<ul style="list-style-type: none"> Between <u>5%</u> - <u>14%</u> of all staff have changed in last year 	<ul style="list-style-type: none"> Less than <u>5%</u> of all staff has changed in last year
<ul style="list-style-type: none"> Staff performing “must do” activity(ies) 	<ul style="list-style-type: none"> Only one person knows how “must do” activity(ies) are performed. <u>OR</u> key person dependency 	<ul style="list-style-type: none"> 2 people know how “must do” activity(ies) are performed 	<ul style="list-style-type: none"> 3 people know how “must do” activity(ies) are performed 	<ul style="list-style-type: none"> 4 people know how “must do” activity(ies) are performed 	<ul style="list-style-type: none"> 5 or more people know how “must do” activity(ies) are performed
<ul style="list-style-type: none"> Difficulty in filling positions (beyond normal recruitment timing) 	<ul style="list-style-type: none"> Takes 8 or more months longer 	<ul style="list-style-type: none"> Takes 6 – 7 months longer 	<ul style="list-style-type: none"> Takes 4 – 5 months longer 	<ul style="list-style-type: none"> Takes 2 – 3 months longer 	<ul style="list-style-type: none"> Takes less than 1 month longer
<ul style="list-style-type: none"> Difficulty in attracting candidates 	<ul style="list-style-type: none"> Had to go back to market > 2 times after original recruitment <u>OR</u> > 2 offers made and declined 	<ul style="list-style-type: none"> Had to go back to market 2 times after original recruitment <u>OR</u> 2 offers made and declined 	<ul style="list-style-type: none"> Had to go back to market 1 time after original recruitment <u>AND</u> 1 offer made and declined 	<ul style="list-style-type: none"> Had to go back to market 1 time after original recruitment <u>OR</u> 1 offer made and declined 	<ul style="list-style-type: none"> Filled position from original recruitment <u>OR</u> no offers declined

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