



SUBJECT: Inherent Risk Assessment – 2022 update

TO: Audit Committee

FROM: City Auditor's Office

Report Number: CA-02-22

Wards Affected: Not applicable

File Numbers: 430-01

Date to Committee: February 9, 2022

Date to Council: February 15, 2022

Recommendation:

Receive and file city auditor's office report CA-02-22 providing an update and overview of the 2022 Inherent Risk Assessment process.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

International Standard #2010.A1 for the Professional Practice of Internal Auditing require that:

“The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.”

This risk assessment process assists the City Auditor to narrow down and focus on areas of the organization that have a higher inherent risk profile. This annual process helps to inform which service areas, programs or projects to include in the Annual Audit Plan.

Strategy/process

The Inherent Risk Assessment process begins with updating the ‘Audit Universe’. This is a comprehensive listing of all ‘auditable units’ across the organization (in the City of Burlington these are equivalent to sub-services; for example: Crossing-Guard Program, Aquatics Programs, Winter Maintenance, Property Tax Billing etc.). The previous Audit Universe from 2017 and 2019 were reviewed and updated with refreshed information obtained from the City Manager’s Office. 134 distinct auditable units were identified in the Audit Universe which comprise the totality of services, programs, or business functions that exist in the City of Burlington. In addition, all past internal audit projects were mapped against these ‘auditable units’ to demonstrate the extent of historical audit coverage (see Appendix-B).

Secondly, the Inherent Risk Assessment Methodology which includes risk factors, attributes, weightings and criteria were updated and refreshed from 2019. This methodology was previously reviewed by Audit Committee in April 2019 as report #CA-09-19. Below is a summary of the minor modifications to the Inherent Risk Assessment methodology; identified in Appendix-A:

Section	Summary of the change	Rationale for the change
Complexity of service delivery	Added label: <i>physical health & safety</i>	To clarify to readers that this risk criteria is related to employee physical health & safety
Complexity of service delivery	Added new risk criteria: “ <i>Level of disruption and complexity of business continuity due to pandemic/ other emergencies</i> ”	New criteria added to address the risk created by the pandemic (and future emergencies). This risk criteria is designed to evaluate a service area’s ability to cope with disruption, recovery from a disaster and continue providing services to its customers.
Materiality & Susceptibility to Error/Fraud	Added label: <i>Financial</i>	To clarify to readers that this risk criteria is related to financial matters
Materiality & Susceptibility to Error/Fraud	Removed risk attribute: <i>Staffing Levels</i>	Employee turnover/vacancy rate was cited twice in the methodology which caused some confusion amongst readers as to a perceived duplication of the same risk criteria. Employee turnover rate is now cited only under the risk factor: <i>HR/Staffing Factors</i> .

Exposure to Scrutiny	Changed risk factor name from: ' <i>Exposure to Scrutiny</i> ' to ' <i>Community Trust/Reputation</i> '	To clarify to readers that this risk criteria is related to organizational reputation
People Participation	Changed risk factor name from: ' <i>People Participation</i> ' to ' <i>HR/Staffing Factors</i> '	To clarify to readers that this risk criteria is related to HR staffing matters
People Participation	Changed turnover rates	Reduced turnover rates under 'Staff Turnover' to right-size/re-align against 10-year actual historical average experienced in City of Burlington

Using the Inherent Risk Assessment methodology described above (see Appendix-A); all 134 individual audit units were individually assessed from the Audit Universe (see Appendix-C). The sources that informed the actual ratings included:

- 2021 Operating and Capital Budget Book
- 2021 Asset Management Report
- Corporate Continuity of Governance & Operations Plan
- City of Burlington Org Chart and other internal documents
- The series of eight 'Council Information Workshops' from September 2021
- Comparing & contrasting against the last assessment completed in 2017
- Feedback received from Burlington Leadership Team, Service Lead for Risk Governance & Enterprise Risk Management, Service Lead for Emergency Management

These results were shared with the Burlington Leadership Team and formed the basis of the 2022 Audit Plan (see report #CA-03-22).

Options Considered

Performing a comprehensive risk assessment to inform the Annual Audit Plan is a best practice and professional requirement prescribed by the Institute of Internal Auditors. Therefore, not performing a risk assessment was not considered as an option.

Financial Matters:

Total Financial Impact

Not applicable.

Source of Funding

Not applicable.

Other Resource Impacts

Not applicable.

Climate Implications

Not applicable.

Engagement Matters:

Members of the Burlington Leadership Team were consulted with respect to the Inherent Risk Assessment methodology and risk scores updated for 2022 within their respective service areas.

Consultation meetings were also held with the Service Leads for Risk Governance & Enterprise Risk Management and Emergency Management to ensure alignment with their respective risk assessment approaches.

Conclusion:

Assessment of the inherent risks in City services informs the Annual Audit Plan and supports the alignment of the City Auditor's time and resources to areas of higher risk.

Respectfully submitted,

Maciej Jurczyk, CPA, CMA, CIA, CRMA

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Appendices: (if none delete section)

- A. CA-02-22 Appendix-A: Inherent Risk Methodology – updated 2022
- B. CA-02-22 Appendix B: Audit Universe – updated 2022
- C. CA-02-22 Appendix C: Inherent Risk Assessment – updated 2022

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.