



CONTINUOUS ASSURANCE TERMS OF REFERENCE

May 9, 2022



Background

The City Internal Auditor's Office provides assurance to the Council on the City's governance, risk management and control processes. The City Auditor's Office approved 2022 Audit Plan includes a Continuous Assurance project. The traditional approach to evaluate the effectiveness of risk and controls is usually retrospective, with testing of controls are performed at a given point in time. However, considering the evolving role of audit, advancement in technology at the City and the need to respond to changing and emerging risks, there is a need to include ongoing risk and control assessments.

Through analysis of data and using technology, the City Auditor's Office will assess controls for key business processes on a continuous basis to detect any errors, over payments, non-compliances or fraud risks. Continuous assurance will provide greater assurance on the whole population and closer to the occurrence of transactions. Thus, errors and frauds will be detected earlier and at times before the money leaves the City.

Data analytics will also provide a powerful fraud prevention and detection tool. According to the Association of Certified Fraud Examination's 2022 Report to the Nations, organizations using anti-fraud controls, such as proactive data analytics, reported that duration of fraud and fraud losses were reduced up to 33%.

Objectives

To assess whether controls are working effectively through implementation of continuous auditing around key business processes, which includes, but is not limited to, procurement, P-cards, vendor payments, corporate revenue, employee payroll, human resources and information technology.

Scope and Approach

The City Internal Auditor's Office will undertake the following approach in the conduct of the Continuous Assurance project:

1. At the initial level, historic data will be analyzed for key business processes such as employee payroll, procurement, payments, P-cards and access for the period January 2021 to December 2022. Where required, current data will used for analytics. As the continuous assurance project matures, data analytics will be run on an on-going basis to detect any errors or fraud risks.
2. The City Internal Auditor's Office will identify the criteria for continuous assurance and will seek assistance from IT, Fusion team and respective business areas in understanding the data and developing the control test scripts. The ability to run analytics will depend upon the availability of data in the system. Where required, expertise from external consultants will be obtained.
3. To enable successful implementation of the continuous auditing program, access to employee payroll, procurement, human resources and P-cards databases will be obtained.

4. The data analytic scripts will be run for the criteria developed and the outliers or red flags identified will be investigated in coordination with the respective business areas. The results from the investigation will be discussed with Administration and a root cause analysis will be conducted to identify recommendations for implementation by Administration.
5. The City Internal Auditor's Office will decide the frequency of conducting specific control tests based on the factors such as the level of risk, the business process cycle and the degree to which Administration is monitoring the controls. As the continuous assurance project matures, it will be act as an early warning for any control violations or deficiencies. We will explore ways to run some analytic tests in a real time environment which would help detect the outliers at the time the transaction was processed.
6. The Continuous Assurance Report will be prepared on a semi-annual basis which will highlight the findings and recommendations to mitigate the risks. The report will be discussed with the Administration and will be submitted to the Standing Policy Committee on Finance.
7. The City Internal Auditor's Office will continuously revise the continuous assurance program, as required and will identify additional processes that require continuous auditing.

Key Criteria

The key criteria that will be used to evaluate the controls includes, but is not limited to the following:

Process Area: Employee Payroll

#	Control Tests	Risk
1.	Identify employees with same date of birth and / or surname	Duplicate / fictitious employees, errors.
2.	Identify employees with same bank account	
3.	Identify employees with missing information (i.e., Social Insurance Numbers, bank account information, address etc.)	
4.	Identify employees with inaccurate or false information (e.g., invalid Social Insurance Number, wrong address)	
5.	Identify employees who received pay but had zero deductions (e.g., pension contributions, CPP, EI, etc.)	
6.	Employees with an unusual length of service (less than 3 months or greater than 35 years)	
7.	Payroll payments made to employees prior to their employment commencement date or after the termination date	Inaccurate employee payments
8.	Large vacation balances of employees	Financial liability
9.	Excessive overtime	Low productivity, health and safety risk, increase in cost
10.	Out of scope employees in receipt of overtime payments	Overpayments, errors, non-compliance
11.	Unauthorized/self-approved time off requests	
12.	Non-submission and / or non-approval of timesheets	
13.	Employee records with more than two base salary within a calendar year	Unauthorized salary changes

Process Area: Procurement and Payments

#	Control Tests	Risk
1.	Vendor and employee name and addresses match	Conflict of Interest, fraud risk
2.	Vendor and employee bank account match	
3.	Vendors with P.O. Box address	Fictitious vendors
4.	Two or more payments with the same amount	Duplicate / inaccurate payments
5.	Payments made without three-way matching (i.e., Purchase Order, receiving and invoice verification)	
6.	Review of Purchase Orders over \$ 5 million	Non-compliance, fraud risks, unauthorized purchases, errors
7.	Purchase Orders created without approval	
8.	Purchases made outside of financial and contract delegations	
9.	Significant increase in purchase price of an item within a specified time period.	
10.	Purchase orders are created after receipt of invoice	
11.	Payments over \$ 5000 without a purchase order or goods received	Late penalties, damaged vendor relationships
12.	Long outstanding vendor payments	
13.	Expired Purchase Orders	Legal risk
14.	Purchase Orders renewed after the expiration	
15.	Vendors with same name, bank account or address	Duplicate vendors
16.	Purchase Orders for which no goods or services have been received for over a year.	Outstanding orders, fraud risk, duplicate purchase orders.
17.	Same staff created purchase orders and received items	Segregation of duties
18.	Sudden increase in purchases from one vendor	Ineffective vendor selection process
19.	Multiple POs to one vendor in the same or similar amounts	Duplicate purchase orders
20.	Identical items requested and purchased in the same or different amounts simultaneously or within short periods of time	Split orders to bypass the authority limits
21.	Recurring purchases that fall just under review/authorization thresholds	Avoid the scrutiny required
22.	Percentage of invoices that are less than \$ 5000	Inefficiencies
23.	Invoices with same or similar numbers	Duplicate invoices
24.	Percentage of purchase requisition and purchase orders changed	Circumvention of authority limits, fraud risks
25.	Difference between purchase order and purchase requisition values	Unauthorized changes
26.	Number of Purchase Orders and / or receiving reports with \$1 unit rate	Payments not matching the contract conditions, fraud risks
27.	Difference in per unit rate and number of units between purchase orders and receiving reports.	

Process Area: P-Cards

#	Control Tests	Risk
1.	Terminated employees with active P-cards	Fraud Risk, unauthorized purchases, misuse
2.	Delay in cancelling of P-cards for terminated employees	
3.	Purchases made after the last date of employment	
4.	Cardholders with unusually high numbers of credits/returns	
5.	Employees with multiple P-cards	
6.	Active P-cards for employees on extended leave	
7.	P-cards with no activity in the last 18 months (dormant P-cards)	Increased financial exposure
8.	Transactions with same amounts	Duplicate transactions
9.	Total monthly transactions exceeding the P-card credit limit	Non-compliance
10.	Single transaction limits exceeded	
11.	Total payment exceeds the per transaction limit into two or more charges	Split transactions to bypass the transaction limit.

Process Area: Access to systems

#	Control Tests	Risk
1.	Active network accounts for terminated employees	Unauthorized access and changes, fraud risks
2.	Delay in revoking network accounts for terminated employees	
3.	Unrestricted / inadequate access to key applications	
4.	Access rights not removed / modified for change in roles and responsibilities of employees	
5.	System and application access to contractors not revoked	

Key Stakeholders

The key stakeholders of this project are Payroll, Supply Chain Management, Finance and Information Technology.

Deliverables

A Continuous Assurance report will be submitted to the Standing Policy Committee on Finance on a semi-annual basis. The first report will be submitted in Quarter 3, 2022. The report will be discussed with the Administration before submission to the Committee. The report will include the control tests conducted, assessment of controls and any control gaps. The report will also highlight the recommendations to strengthen the control environment at the City.