

Clause 6 in Report No. 1 of the Audit Committee was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on February 18, 2016.

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Continuous Controls Monitoring Program

Audit Committee recommends adoption of the following recommendation contained in the report dated January 26, 2016 from the Director, Audit Services:

1. Recommendations

It is recommended that this report be received for information.

2. Purpose

This report provides Audit Committee with an overview of the Continuous Controls Monitoring Program being developed and implemented at the Region by Audit Services.

3. Background

Audit Services four year Audit Plan (2015-2018) includes the development and application of a system of continuous controls monitoring for various business processes throughout the Region. Audit Services is currently in the process of designing the program including the scope and methodology, and we continue to collaborate with key business process owners and management.

4. Analysis and Options

Continuous controls monitoring uses data analytic software to proactively monitor specific business processes and transactions

The objective of continuous controls monitoring is to provide periodic reports to management to assist in proactively monitoring financial transactions, detecting unusual transactions/expenses and identifying areas where internal controls

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could be strengthened. The main advantages of continuous controls monitoring is the ability to:

- Monitor 100% of the population of specific transactions
- Automate routine audit testing
- Detect anomalies that may indicate fraud, abuse or errors
- Identify areas where internal controls are inadequate or need to be strengthened
- Track and escalate exceptions for immediate remediation

This monitoring process will be completed using specific audit data analytics software. These tools are commonly referred to as computer assisted auditing techniques (CAATs) and include features such as extracting or matching information from large populations of data. CAATs allow for key business processes/systems to be analyzed at the transaction level and for indications of control system deficiencies, emerging risks, and trend analysis.

Audit Services has identified an initial set of key business process areas to monitor and report on to management

The initial business process areas identified for implementation of the program in early 2016 are as follows:

- Purchasing process; monitoring for duplicate vendor payments, overdue vendor invoices, segregation of duties for creating and approving purchase orders, and purchasing card compliance.
- Employee expenditures; monitoring employee mileage claims to identify potential cost savings, and to ensure employee taxable benefits are accurately reported.
- IT systems security; monitoring physical and system access to identify potential security risks and unauthorized access.

Audit Services will report the monitoring results to management/business process owners on a routine basis. The reporting frequency will vary depending on the nature of the operation or business process being monitored, but will include quarterly, semi-annual and annual reporting. Management will be responsible for following up on any exceptions/anomalies found and will be required to report back to Audit Services to ensure all exceptions are adequately addressed.

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Audit Services plans to expand the program and areas of review where department resources allow. Potential business process areas for future implementation include; accounts receivable, employee expenditures, and overtime pay claims.

Link to key Council-approved plans

This report is consistent with the 2015-2019 strategic priority area of Good Government, which focuses on the financial sustainability, openness, transparency, accountability and reliability of Regional government.

5. Financial Implications

The financial impact from this program is not determinable at this time, however we anticipate ongoing financial savings as a result of the continuous controls monitoring.

6. Local Municipal Impact

There is no local municipal impact associated with this report.

7. Conclusion

As permitted by our resources, the use of continuous controls monitoring will be implemented and continue to grow throughout the Region. The use of data extraction software throughout the continuous controls monitoring process will more easily and effectively assist Audit Services and management in the timely detection of fraud, errors and other anomalies. It will also allow Audit Services to identify opportunities for efficiencies, and to remedy internal control deficiencies.

We will continue to provide Audit Committee with status updates on the program success, expansion, and cost savings identified.

For more information on this report, please contact Leanne Rabeau, Senior Auditor at ext. 71251 or David Fanone, Senior Auditor at ext. 71210.

The Senior Management Group has reviewed this report.

January 26, 2016

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