Winnipeg

Audit Plan
2007 to 2009

Audit Department

Leaders in building public trust in civic government

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A MESSAGE FROM THE CITY AUDITOR

I am very pleased to present my Audit Plan for 2007 to 2009. The plan was developed through a comprehensive process that involved broad consultation with Councillors, Senior Administrators and managers across the organization. In addition, utilizing our Integrated Risk Management Model, risk profiles were updated for all key services and a Corporate Risk Profile was created to provide context for our plan. The risk profiles demonstrated that although progress has been made, many of the key challenges identified in 2004 remain. There is increasing demand for better customer service while operating in an environment of financial constraint. The Administration is being challenged to look at different ways to deliver services, perhaps through involvement with the private sector.

In the past few years, we have had a particular interest in assessing how well the City has made the shift to a business-oriented culture. We focused on value for money in existing programs and reviewed, with interest, the results of the City's investment in alternative service delivery models. We also focused on the quality of performance information provided to decision-makers. We will continue to focus on these areas in 2007 to 2009. We believe that the City must focus on 'getting it right' – achieving an appropriate balance between the quality and cost of service delivery.

As the Administration endeavors to achieve this balance with decreasing resources, the level of risk increases. Therefore, we will place a specific emphasis on providing recommendations for improving the efficiency and cost-effectiveness of City services while ensuring that the achievement of service quality objectives has not been compromised. We will be alert to identifying opportunities to reduce red tape or to create partnerships with external service providers and review the results of these efforts. We will also look at how well City departments are promoting a safe, healthy and sustainable environment for Winnipeggers.

It is an exciting time to be in the City of Winnipeg as our City Councillors and Administrators work together to build the City of Opportunity. My team and I are exited about profiling the City's successes and identifying opportunities to improve services for our citizens. I look forward to reporting back on the results of our work over the next three years.

Sincerely



Shannon Hunt, CGA, CFE

City Auditor

ABOUT THE DEPARTMENT

Our Mandate

The City Auditor is a statutory officer appointed by City Council under the *City of Winnipeg Charter*. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City Administration. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring Civic Administration's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. After communication to City Council, an audit report becomes a public document.

Sections 102 to 106 of the *City of Winnipeg Charter* establish the position and mandate of the City Auditor. In 1989, City Council made the decision to contract out the annual financial statement audit to a firm of chartered accountants while expanding the scope of responsibilities for the City Audit Department. The current audit mandate includes the following duties:

- *To examine and evaluate the adequacy of the City's systems of internal control, both financial and operational.*
- *To determine whether applicable sections of the City of Winnipeg Act, by-laws, regulations, orders of Council and administrative directives have been complied with, as well as applicable federal and provincial legislation.*
- *To review the performance of operations to ensure money was expended with due regard to economy and efficiency.*
- *To review whether satisfactory procedures were established to measure and report to Council on program effectiveness.*
- *To review the results of programs to determine the benefits and whether the program has met established objectives.*
- *To act as an internal consulting group to provide information and help to civic departments within the capabilities and resources of the Audit Department.*
- *To examine problem areas, within the capabilities of the Audit Department, which are brought to the Auditor's attention by taxpayers, department heads, employees, Council, Standing Committees of Council, members of Council and the CAO.*

Our Service Value

The value of an independent audit function to Council is the ability to use credible information to make better decisions and to hold the Administration accountable. Our primary client is the Audit Committee. The Audit Committee is chaired by the Mayor and includes the Deputy Mayor and the chairs of the Standing Policy Committees of Council. In accordance with the terms of reference adopted by Council in September 1998, the Audit Committee's primary role is to ensure that due diligence has been directed towards ensuring that an effective control framework is in place. This framework provides reasonable assurance that the financial, operational and regulatory objectives of the City are achieved and that governance and accountability responsibilities of Council and the Administration are met. The Audit Committee meets four times a year or more frequently at the call of the Chair.

The Audit Department's stakeholders are civic managers and citizens. Audit reports are made public once they have been communicated to City Council.

Our Mission

To support City Council and the Civic Administration in the achievement of organizational objectives by providing objective and independent information, advice and assurance with respect to governance, accountability, risk management and performance.

Our Vision

To be recognized as leaders in building public trust in civic government in support of our shared vision of a vibrant and healthy city.

Our Strategic Goals

- *To provide independent and objective assurance on the efficiency and effectiveness of City operations as well as timely, relevant and value-added recommendations for improvement.*
- *To influence organizational outcomes and accountability by promoting good governance, effective risk management and controllership, and comprehensive and transparent performance information.*
- *To deliver high quality, cost-effective Audit services.*

OUR SERVICE LINES

Advisory Services

Activities carried out under this service line are proactive and concerned with *getting it right the first time.* As resources permit, we deliver this discretionary service through

- Educational initiatives
- Research activities
- Consulting services
- Committee participation

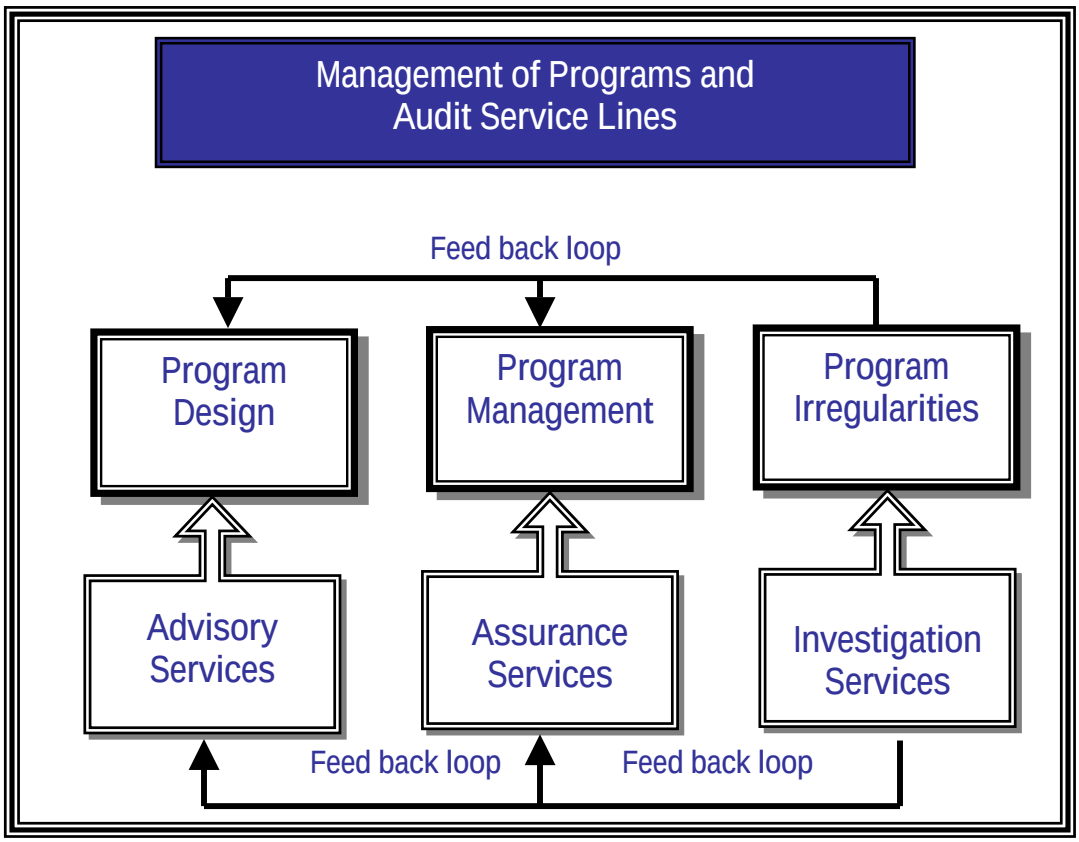
Assurance Services

Assurance services are defined as *independent professional services that improve the quality of information or its context for decision makers*. Assurance can be provided on both financial and non-financial performance, or it can be provided with respect to the strength of risk management strategies and controls. Assurance services provided by the department include

- Performance audits
- Compliance audits
- Business process audits
- Due diligence reviews

Investigation Services

Under this service line, we initiate reviews in response to a request from an external party or as a result of information being brought to the attention of the City Auditor under the *City of Winnipeg Fraud, Theft or Related Irregularities Directive*. Reviews are typically limited in scope.



AUDIT PLAN DEVELOPMENT

Purpose of an Audit Plan

The purpose of a formal audit plan is to provide a disciplined approach to the identification of potential audit projects. Formal planning has several benefits:

- It focuses scarce resources on priority or high-risk areas.
- It provides the basis for the involvement of clients and stakeholders in the audit planning process.
- It ensures that all business units (and associated risks) are considered for audit attention during the planning process.
- It serves as a standard against which to measure the performance of the Audit Department.

The Audit Plan includes projects proposed for a three year period, based upon the risks and priorities that exist at a certain point in time. Since we are operating in a dynamic environment, risks and priorities are constantly changing. In addition, Council has the authority to direct the City Auditor to conduct specific audits, which may be proposed during the three-year cycle, and the City Auditor has agreed to coordinate investigations referred to the Department. For these reasons and/or when we believe it is in the best interests of our clients and stakeholders, an adjustment will be made to the current Audit Plan. Changes will be reported to Audit Committee as soon as practical.

Audit Planning Process

The Audit Planning process is comprehensive and comprises several activities:

- identification and classification of auditable entities;
- evaluation of audit entities against standard criteria and risk factors;
- consultation with City Councillors and Senior Administrators;
- updating of *Service Risk Profiles*;
- creation of a *Corporate Risk Profile*;
- consideration of resources available and required by project type;
- selection of Audit Projects;
- presentation of our proposed Audit Plan to Audit Committee; and
- communication of our final Audit Plan to City Council.

It is understood that current resources do not allow for the audit of all civic entities on a cyclical basis. Nor is it desirable that this be the case. Projects are selected as a result of the risk-based planning process. All potential projects are rated periodically against common risk criteria to determine relative priority. The risk profiles contained in the departmental business plans are also reviewed and updated in conjunction with a broad consultation process involving senior managers, the CAO and Councillors. A *Corporate Risk Profile* is created as a product of this process to set the context for project planning. (See Appendix A.)

Where the priority of a particular project is high from a risk perspective, congruent with the Department's strategic goals, and resources are available, the project is selected for inclusion in the multi-year Audit Plan. It is for this plan that we seek Audit Committee endorsement. As a first principle, the Audit Department plans to allocate its resources to those areas that represent the greatest risk to the organization being able to achieve its business objectives. Having said this, however, other factors need to be considered. Timing of a particular project may be a consideration or the entity may have recently been subject to an independent review by another party. We attempt to provide balanced coverage across the organization and across the types of services delivered. While the extent of audit may vary, at a minimum, we believe that all units of the organization should be considered during the risk assessment process.

Audit Selection Criteria

Advisory and Investigation Services

Advisory Services and Investigation projects are considered upon request. Where known, Advisory Services projects have been included in the Audit Plan. Investigations are added as initiated. Proposed projects are assessed against the following criteria:

- corporate significance or exposure;
- congruence with Audit mission and strategic goals;
- timing of intervention; and
- availability of resources.

Assurance Services

Assurance projects are first determined to be either mandatory or discretionary. Mandatory projects such as due diligence reviews of collective agreements and the annual review of compliance with the Councillors' Representation Allowance Policy must be scheduled as a priority in the annual audit plan. Potential assurance audits that are not mandatory are assessed according to population type:

- *Public Services* – substantive review of departmental operations.
- *Internal Services* – organization-wide review from a corporate perspective.
- *Governance Units*– review of units that provide support to Council.
- *Administrative Directives* – audit of compliance with key controls within basic administrative processes.
- *Corporate Assets & Liabilities* – audit of controls around and use of corporate assets and liabilities.
- *Wholly owned corporations* – substantive review of the whole or part of a civic operation or agency.

Each candidate is rated against weighted risk factors applicable to that audit type as indicated below:

	Financial Analysis			Qualitative Analysis					
RISK FACTOR / AUDIT UNIT	Operational Budget	Capital Budget	Total Variance over Prior Period	Impact on Plan Winnipeg	Complexity of Operation	Sensitivity of Operation	Political, CAO, Audit Concerns	Risk Profile Score	Recent Review
Public Services	X	X	X	X	X	X	X	X	X
Internal Services	X	X	X	X	X	X	X	X	X
Governance Audits	X	X	X	X	X	X	X	X	X
Administrative Directives	X				X	X	X		X
Corporate Assets & Liabilities	X					X	X		X
Wholly Owned Corporations	X			X	X	X	X	X	X

Department Resources

The Department has an approved staff complement of 10 and a small consulting budget of $50,000 to retain specialized expertise that is not available in-house. For small audit departments, the ability to provide a wide range of services, while not compromising independence, is becoming a challenge. As a result, resources that are strained due to increasing demand are being stretched through the use of partnership arrangements, innovative methodologies, and the increasing use of technology. We will continue to leverage our scarce resources through all three approaches.

Currently, three staff Auditor positions are vacant. It is our experience that projects that examine business processes common to most organizations can benefit from an external perspective and the economies of scale that a large auditing firm can offer. On the other hand, projects which require a good knowledge of public sector practices or the City of Winnipeg, in particular, are better led by internal staff. Projects for 2007 will be resourced with a combination of staff auditors and contract auditors, depending upon the technical qualifications required.

We will evaluate resource allocation on an on-going basis and may consider recruitment or a more formal co-sourcing arrangement with one firm if that appears to be beneficial. We will also invest in new audit management software to enhance the efficiency of our own internal processes.

We intend to reserve 80% to 90% of our available resources for independent assurance activities, which constitute our primary role. Advisory Services projects requested have already been included in the Audit Plan. Resource availability for additional advisory services projects is limited.

The City Auditor has also agreed to conduct investigations referred by the Administration under the new *City of Winnipeg Fraud, Theft or Related Irregularities Directive.* Since the directive was only implemented in 2006, the impact on departmental resources has not yet been determined. No new resources were requested to address this workload. For 2007 and 2008, the Department will only be able to absorb a minimum number of small investigation projects without additional resources or deferral of planned projects. The Department will continue to monitor the situation in 2007.

Resources Available

Unit 1	Unit 2
Deputy City Auditor	Audit Manager
Staff Auditors (2)	Staff Auditors (1.5)
Contract Auditors (2)	Contract Auditor (1)
Consulting Budget of $25,000	Consulting Budget of $25,000

Resource Costs

Internal Resources

It has been our practice to calculate the cost of our services using a full costing methodology (labour costs plus overhead). In 2006, our billing rate was $117 per audit hour. Removing time and costs associated with contract auditors, our billing rate utilizing internal resources only was $109 per audit hour.

External Resources

Projects may be contracted out to Audit partners in their entirety, or a mixture of internal and external resources may be utilized, depending upon the requirements of the project. In 2006, the average billing rate for contract resources was $195 per hour.

In early 2007, we invited expressions of interest and costing information from the major auditing firms in the City for planning purposes. The firms that responded quoted rates ranging from $75 for an audit student to $525 for a senior partner. Specific projects will be resourced by *Request for Proposal* or *Rotation*, depending upon the technical requirements and availability of appropriate resources.

Project Resource Requirements

Advisory and Investigation Services

Projects resource requirements depend upon the nature and scope of the project as determined at the time of initiation. Depending upon the technical qualifications required for the review, a determination will be made as to the optimal mix of internal and external resources. The rate for external qualified forensic investigators and information technology specialists ranges from $84 to $525, depending upon the firm and the level of expertise required. The rate for financial and compliance auditors ranges from $75 to $525.

Assurance Services

Assurance project resource requirements depend upon the type and scope of the review undertaken. The general project scope and budget estimates are provided below, utilizing 2006 billing rates:

Due Diligence Reviews

Project Scope

- Key Business Assumptions
- Costing Calculations
- Disclosure to Decision-makers

Estimated Project Budget

- 20 to 35 hours
- $2,180 to $3,815 (using internal resources only)

Business Process and Compliance Audits

Project Scope

- Accountability Framework
- Risk Management Practices
- Effectiveness of Key Controls
- Compliance with Authorities
- Performance Reporting

Estimated Project Budget

- 500 to 1200 hours
- $54,500 to $234,000 (depending upon the mix of internal and external resources)

Performance Audits

Project Scope

- Business Objectives
- Accountability Relationships
- Risk Management & Controls
- Value for Money Achieved
- Protection of Public Assets
- Compliance with Authorities
- Performance Results
- Performance Reporting

Estimated Project Budget

- 1000 to 2000 hours
- $109,000 to $390,000 (depending upon the mix of internal and external resources)

AUDIT PLAN 2007 - 2009

State of Risk and Control

As part of our audit planning consultation process, we updated the 2004 Corporate Risk Profile developed in conjunction with our *Integrated Risk Management* initiative (See Appendix A). Many of the risks identified in 2004 still exist in 2006. Financial resources remain a challenge, particularly to address the continuing infrastructure deficit and to cope with the launch of several major capital projects. While there has been some relief from other levels of Government, strong reliance on property taxes continues. Other funding sources or significant cost savings will be required to replace business taxes that are phased out. Opportunities to collaborate with public and private sector partners should be actively pursued. New requirements related to the environment and human resource issues such as the impact of demographics, need to be addressed. Responding to the safety concerns of citizens and the needs of the Aboriginal Community remain important. While Council direction has been clarified, managers are challenged to respond to multiple priorities with fewer resources. Corporate planning and performance reporting processes need to be enhanced, although progress has been made on planning for disasters.

Audit Focus for 2007 to 2009

Audit activities support *Plan Winnipeg* policy objectives related to *Government and the Economy*: *"Winnipeggers expect good government – effective and efficient in its operations and principled in its actions. As ratepayers, they want the comfort of knowing that tax dollars are spent wisely."* In determining specific projects to be undertaken, the Audit Department considers the current priorities of City Council. In the past few years, we have had a particular interest in assessing how well the City has made the shift to a business-oriented culture. We focused on results – the extent to which services had achieved their business objectives and delivered value for money; the reliability, relevance and transparency of information; and the effectiveness of processes used to determine resource allocation, manage risks, and measure and report on results. We reviewed the City's infrastructure support and asset management practices as well as our investment in alternative service delivery models, and we identified both strengths and areas for improvement.

We will continue to focus on these areas in 2007 to 2009. In addition, we will place a particular emphasis on providing recommendations for improving the efficiency and cost-effectiveness of City services while ensuring that the achievement of service quality objectives has not been compromised. We believe that the City must focus on "getting it right" – achieving an appropriate balance between the quality and cost of service delivery. As the Administration endeavors to achieve this balance with decreasing resources, the level of risk increases. We will be alert to identifying opportunities to reduce red tape or to create partnerships with external service providers and review the results of these efforts. We will also look at how well City departments are promoting a safe, healthy and sustainable environment for Winnipeggers. Since we consider ourselves, ultimately, to be in the information business, we will continue to promote improvements in the quality of performance reporting to decision-makers within the organization and to our citizens.

Proposed Projects for 2007

2007 PROJECTS	
Advisory Services Projects *On-going Commitments* • Corporate Leadership Training • Risk Management Training/Workshops • Assessment Communications Task Force • Quarterly Report Cards • Professional Commitments *New Projects* • Economic Opportunity Commission • Audit Committee Terms of Reference • PSAB Compliance – Capital Assets • IT Risk Assessment Workshop • Audit Management Software	**Assurance Services Projects** *On-going Commitments** • Collective Agreements Due Diligence • Councillors' Representation Allowance • Revenue Audits • Grant Accountability Audits • Contract Audits *New Projects*** • WFPS Amalgamation Business Case • 311 Model Alternatives – Due Diligence Review • Desktop Security • Public Health Inspections • Building Permits • Workplace Health & Safety Program • Succession Planning • Capital Projects – Planning, Procurement, Contacting & Operating

*On-going Commitments

- Collective Agreements, Due Diligence Reviews and the annual audit of the Councillors' Representation Allowance are mandatory projects.
- Revenue Audits, Grant Accountability Audits and Contract Audits will be initiated as resources permit, utilizing appropriate internal or external resources.

**Alternative Projects

- Audits have been selected in accordance with our audit planning methodology and taking into account available resources. We have provided a balance of performance audits and corporate business process/compliance audits.
- Should circumstances change, new projects may appear to be more relevant or of higher priority. In the absence of additional resources, planned projects would have to be dropped from this list to accommodate new projects.

Proposed Projects for 2008

2008 PROJECTS	
Advisory Services Projects	**Assurance Services Projects**
On-going Commitments	*On-going Commitments**
• Corporate Leadership Training • Risk Management Training/Workshops • Assessment Communications Task Force • Quarterly Report Cards • Professional Commitments	• Collective Agreements Due Diligence • Councillors' Representation Allowance • Revenue Audits • Grant Accountability Audits • Contract Audits
New Projects	*New Projects***
• Fraud & Waste Hotline Research Study • Councillor Survey • Audit Management Software • Department Peer Review	• Internal Charges Review • Customer Service Standards Audit • Corporate Planning and Reporting • Pay and Benefits System • Overtime Audit (Emergency Services) • Transit Fare Security • Auto Allowance • Building Inspections • Asset Management – Water Distribution System

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**Alternative Projects

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Proposed Projects for Subsequent Years

The following projects have also been identified as potential projects. They will be considered for 2009 and subsequent years. The projects should be re-evaluated in 2008 to ensure continued relevance and priority.

- Environmental Strategy
- Aboriginal Strategy
- Assiniboine Park Conservancy
- Winnipeg Parking Authority
- Fleet Management Agency
- Archives and Records Management
- Risk Management and Insurance
- Implementation of P3 Projects
- Building Security
- Crime-stat Implementation Review
- Human Resources Governance Model
- Emergency Response
- Asset Management - Parks
- Reasonable Accommodation Directive
- Assessment Appeals Application System
- IT Projects (arising from the Risk Assessment Workshop)
- Destination Winnipeg
- Forks North Portage*
- Winnipeg Convention Centre*
- Winnipeg Housing and Homeless Initiative*

*It may be possible to conduct these projects jointly with the Provincial and /or Federal Auditors General. This option will be explored in 2007 and 2008. An alternative is to review these from the perspective of the grant provided by the City of Winnipeg as part of a Grant Accountability Audit.

APPENDIX A: CORPORATE RISK PROFILE 2006

Key Context Risks

Context risks relate to internal and external factors that impact the environment in which the City operates or business processes are conducted.

External Environment	Compliance	Organizational Culture	Business Process
Collaboration and strategic alliances	Capacity to deal with changing environmental legislation and regulations	Clarity of objectives ↓	Business resumption planning and disaster management ↓
Citizens' safety concerns		Balancing competing objectives	Corporate planning and reporting
Addressing the needs of the Aboriginal community			

Key Resource Risks

Resource risks relate to the resources used by the City to accomplish its goals.

Human Resources	Financial Resources	Information Resources	Physical Assets
Ability to recruit ↑	Financial resource constraints	Strategic integration of information	Aging infrastructure and inadequate infrastructure
Leadership and management continuity ↑	New funding arrangements for cities ↓		New capital projects
Change fatigue and the integration of priorities			
Labour relations			
Workplace Health and Safety			

Risk is defined as a future event that may impact the achievement of an organization's business objectives. Risk is measured by the likelihood of occurrence and the potential impact. Since future events may be either negative or positive, risks can be either *threats* that could prevent the achievement of objectives or *opportunities* that might enhance the achievement of objectives.

Red indicates a critical risk; **orange** a high risk. **Trend arrows** indicate that a risk has increased or decreased since the last assessment in 2004.