Agenda – Executive Policy Committee – May 20, 2009

REPORTS

Item No. 6 Audit Plan - 2009 - 2010
eFile FA-2

AUDIT COMMITTEE RECOMMENDATION:

On April 27, 2009, the Audit Committee recommended that the Audit Plan - 2009 - 2010 be approved in principle, and submitted the matter to the Executive Policy Committee and Council.



Audit Department

Audit Plan
2009 - 2010

Leaders in building public trust in civic government

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A MESSAGE FROM THE ACTING CITY AUDITOR

I am honoured to present my Audit Plan for 2009 and 2010. The plan was developed through a comprehensive process that involved broad consultation with senior 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 updated to provide context for our plan. The risk profiles demonstrated that although progress has been made, many of the key challenges identified in 2006 remain. There is sustained pressure to maintain service to citizens while operating in an environment of financial constraint. The Public Service is being challenged to look at more efficient 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 done in providing transparent accountability information to decision makers and the public. We will continue to focus on this area in 2009 and 2010. 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 Public Service endeavors to achieve this balance with decreasing resources, the importance of having sound performance measurement systems increases. In order to make informed decisions, decision makers must have access to performance information that measures the "right things". This plan has been developed based on the expansion of the City Auditor's responsibilities to indude the role of Chief Performance Officer. Therefore, we will place a specific focus on improving performance measurement and performance management at the City. Our expanded role will indude providing advice and recommendations on the definition and development of performance measures and assistance on the implementation of performance management systems. We believe that the availability of transparent performance information is essential for the citizens to understand how well services are being managed and will result in greater accountability for tax dollars spent.

It is a challenging time to be in the City of Winnipeg as our City Councillors and Public Service work together to build the 'City of Opportunity'. My team and I am excited about identifying opportunities to improve services for our citizens. I look forward to reporting back on the results of our work over the next two years.

Sincerely



Brian Whiteside CA•CIA

Acting 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's Public Service. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service'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 Audit Department mandate has remained unchanged since 1989. In 2009, the Mayor and the CAO introduced the concept of a Chief Performance Officer for the City. The CAO has added the role of Chief Performance Officer to the position of City Auditor. The mandate of the department with the addition of the Chief Performance Officer role is as follows:

- *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.*
- *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 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.*

Chief Performance Officer Role

- *To monitor the implementation of recommendations from audit reports and report on the status of implementation of recommendations to Audit Committee*
- *To provide advice and assistance on the definition and development of performance measures, the implementation of performance management systems and the reporting of performance information to the public and to advocate for the use of performance information.*

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 Public Service 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. 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 Public Service are met. The Audit Committee meets four times a year or more frequently at the call of the Chair.

In 2009, we have been asked to take a greater role in ensuring that decision-makers have access to performance information that measures the "*right things*". Our expanded role will include providing advice and recommendations on the definition and development of performance measures and assistance on the implementation of performance management systems. We believe that the availability of transparent performance information is essential for the citizens to understand how well services are being managed and will result in greater accountability for tax dollars spent.

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

Our Mission

To support City Council and the Public Service 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 providing leadership, advice and assistance to support: good governance, effective risk management, and the development of comprehensive and transparent performance information.*

- *To deliver high quality, cost-effective Audit services.*

OUR SERVICE LINES

Advisory Services

With the addition of the role of Chief Performance Officer to the responsibilities of the City Auditor, the focus of the Department's advisory services in the short term will be on improving performance measurement. Activities carried out under this service line are proactive and primarily concerned with "*getting it right*" *and* measuring the "*right things*". As resources permit, we deliver this discretionary service through

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

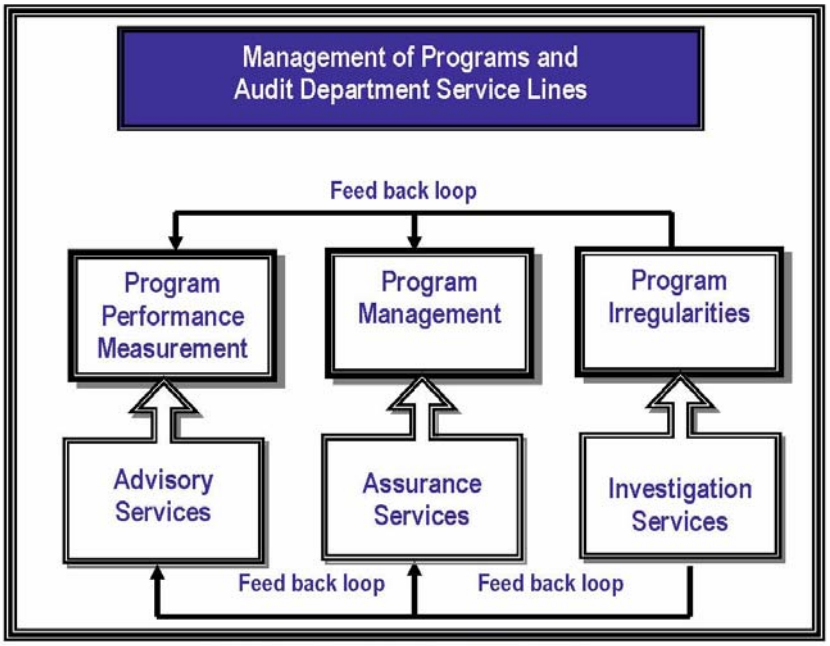
Assurance Services

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*.



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 two 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 term of the plan, 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*;
- updating of the *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 and the CAO. 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 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 selected based on the value added to the City. 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:

- *Services* – substantive review of the delivery of the whole or part of a service. A service may be delivered by more than one department.
- *Corporate-wide* – audit of compliance with key controls within basic administrative processes.
- *Other Entities* – substantive review of the whole or part of an arm's length operation that the City has an ownership interest or is substantially funded by the City.

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	Impact on Plan Winnipeg	Complexity of Operation	Sensitivity of Operation	Political, CAO, Audit Concerns	Risk Profile Score	Recent Review
Services	X	X	X	X	X	X	X	X
Corporate-wide	X			X	X	X		X
Other Entities	X		X	X	X	X	X	

Department Resources

The Department has seven staff and a consulting budget of $56,000 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 a challenge. As a result, resources that are strained due to increasing demand are being optimized 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.

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 2009 will be primarily resourced with staff auditors. In certain cases, external firms will be used if the expertise is required.

We intend to reserve 80% 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 Public Service under the *City of Winnipeg Fraud, Theft or Related Irregularities Directive.* In the past two years no matters were referred to the City Auditor for investigation. For 2009 and 2010, the Department will only be able to absorb a minimum number of small investigation projects without additional resources or deferral of planned projects.

Audit Resources Available

City Auditor
Deputy City Auditor
Project Leaders (2)
Auditors (2)
Administrative Coordinator (1/2 time)
Consulting Budget of $56,000

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 2008, our billing rate was $112 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 2008, the average billing rate for contract resources was $188 per hour.

In 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 expertise required and availability of appropriate resources.

AUDIT PLAN 2009 - 2010

State of Risk and Control

As part of our audit planning consultation process, we updated the 2006 Corporate Risk Profile (See Appendix A). Many of the risks identified in 2006 still exist in 2009. Financial resources remain a challenge, particularly in addressing the deteriorating infrastructure and to cope with the implementation of new 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 to be phased out. Opportunities to collaborate with public and private sector partners are being actively pursued. New requirements related to the environment and human resource issues such as workforce planning and recruitment, need to be addressed. Responding to the safety concerns of citizens and the needs of the Aboriginal Community remain important. The outlook for the economy has become more uncertain with the impact of the recession on Winnipeg to be determined. The delivery of corporate services is in the midst of a transformation to improve efficiencies. While Council direction has been clarified, managers are challenged to respond to multiple priorities with fewer resources. Corporate planning and performance reporting need to be enhanced.

Audit Focus for 2009 to 2010

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 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 capital budgeting, monitoring and reporting practices and the capital project management practices, and identified both strengths and areas for improvement.

We will continue to focus on these areas in 2009 and 2010. In addition, we will place a particular emphasis on providing advice and recommendations for improving performance measures. 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 Public Service endeavors to achieve this balance with decreasing resources, the level of risk increases. In order to manage the risk, decision makers must have access to performance information that measures the "right things" including measures of efficiency and cost-effectiveness and comparisons to targets and benchmarks. Since we believe that one area we can add tremendous value is in improving the quality of accountability information, our short-term focus is to promote improvements in the quality of corporate and service-based performance measurement and reporting to decision-makers within the organization and to our citizens.

Project Resource Requirements

The next pages will highlight the projects we propose to undertake during the 2009-2010 timeframe. Audit projects can vary considerably and the following section will identify the typical scope and possible objectives for each service.

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.

Assurance Services

Assurance project resource requirements depend upon the type and scope of the review undertaken. The general project scope for the various types of assurance projects are provided below:

Due Diligence Reviews

Project Scope – focused on providing assurance on Public Service reports and financial information. Can include the review of the following:

- Key business assumptions
- Costing calculations
- Disclosure to decision-makers

Business Process and Compliance Audits

Project Scope –focused on a single process or system. Can include the review of the following:

- Accountability framework
- Risk management practices
- Effectiveness of key controls
- Compliance with authorities
- Performance reporting

Performance Audits

Project Scope –the broadest scope projects, focused on the evaluation of the performance of a program or function. Can include the review of the following:

- Business objectives
- Accountability relationships
- Risk management & controls
- Value for money achieved
- Protection of public assets
- Compliance with authorities
- Performance results
- Performance reporting

Proposed Projects for 2009

2009 PROJECTS	
Advisory Services Projects	**Assurance Services Projects**
Internal Project • Audit Management System	*On-going Commitments** • Collective Agreements Due Diligence • Councillors' Representation Allowance
On-going Commitments • Assessment Communications Task Force • Quarterly Report Card and Follow-up	*Projects in Progress* • Building Permits • Winnipeg Fire Paramedic Overtime • 510 Main Street Renovations
New Projects • Corporate Performance Measurement	*New Projects*** • Operational Review of the SOAs • Corporate Leadership Training • Business Resumption Planning • Traffic Signals • Local Improvements

***On-going Commitments**

- Collective Agreements, Due Diligence Reviews and the annual audit of the Councillors' Representation Allowance are mandatory projects.

****Alternative Projects**

- Audits have been selected in accordance with our audit planning methodology and taking into account available resources. 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 2010

2010 PROJECTS	
Advisory Services Projects	**Assurance Services Projects**
Internal Project • Audit Management System *On-going Commitments* • Assessment Communications Task Force • Quarterly Report Card and Follow-up • Corporate Performance Measurement *New Projects* • Fraud & Waste Hotline Research Study • Department Peer Review	*On-going Commitments** • Collective Agreements Due Diligence • Councillors' Representation Allowance *New Projects*** • Risk Management and Insurance • Real Estate – Non-Cash Grants to not for profit agencies • WRHA Cost-Sharing • Libraries • 311

***On-going Commitments**

- Collective Agreements, Due Diligence Reviews and the annual audit of the Councillors' Representation Allowance are mandatory projects.

****Alternative Projects**

- Audits have been selected in accordance with our audit planning methodology and taking into account available resources. 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 Subsequent Years

The following projects have also been identified as potential projects. They will be considered for 2011 and subsequent years. The projects should be re-evaluated in 2010 to ensure continued relevance and priority.

- Archives and Records Management
- Environmental Health*
- Employee Benefits
- Campus Accommodation Strategic Planning
- Recreation Services
- Survey Infrastructure
- Development Agreement Parameters
- Asset Management - Sidewalks
- Asset Management - Parks / Green Space
- Implementation of Transit's Capital Program
- North Portage Development Agency*
- Building Security
- WFPS Training Branch
- Disposition of City-owned Real Estate

*It may be possible to conduct these projects jointly with the Provincial Auditor General.

APPENDIX A: CORPORATE RISK PROFILE 2009

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
State of Economy			Corporate Services Transformation
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 and sharing of information ⇩	Aging infrastructure and inadequate infrastructure
Leadership and management continuity			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.