Winnipeg

Audit Department

# *Audit Plan 2011 - 2014*

*April 2011*

*Leaders in building public trust in civic government*

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# A **MESSAGE FROM THE CITY AUDITOR**

*I am pleased to present my Audit Plan for the period 2011through 2014. The plan was developed through a comprehensive process that involved broad consultation with Councillors and 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 created to provide context for our plan. The risk profiles demonstrated that although progress has been made in some areas many of the key challenges identified in 2009 remain. There is sustained pressure to maintain service to citizens while operating in an environment of financial constraint.*

*In the past two 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 have worked with the Public Service to establish performance measures for all services. 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 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 includes providing assurance on some of the key performance measures reported by the Public Service. We believe that the availability of transparent, fair, relevant and reliable performance information is essential for the citizens to understanding how well services are being managed and will result in greater accountability for tax dollars spent.*

*We are committed to identifying opportunities to improve performance of the public services for the citizens of Winnipeg and to enhancing the quality of performance information available to the public. I look forward to reporting the results of our work over the next four years.*

*Sincerely,*



*Brian Whiteside CA•CIA*

*City Auditor*

*April 28, 2011*

# 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 accountability of the Public Service 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 role of Chief Performance Officer was added to the responsibilities of the City Auditor. The mandate of the department 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 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. 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.

We will to continue to play a role in ensuring that decision-makers have access to performance information that measures the "*right things*". Our role will include providing advice and recommendations on the definition and development of performance measures and assistance on the implementation of performance management systems. During the course of the next four years we will be begin to provide assurance on key performance measures. 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 comprehensive and transparent performance information.*

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

# OUR SERVICE LINES

## *Advisory Services*

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

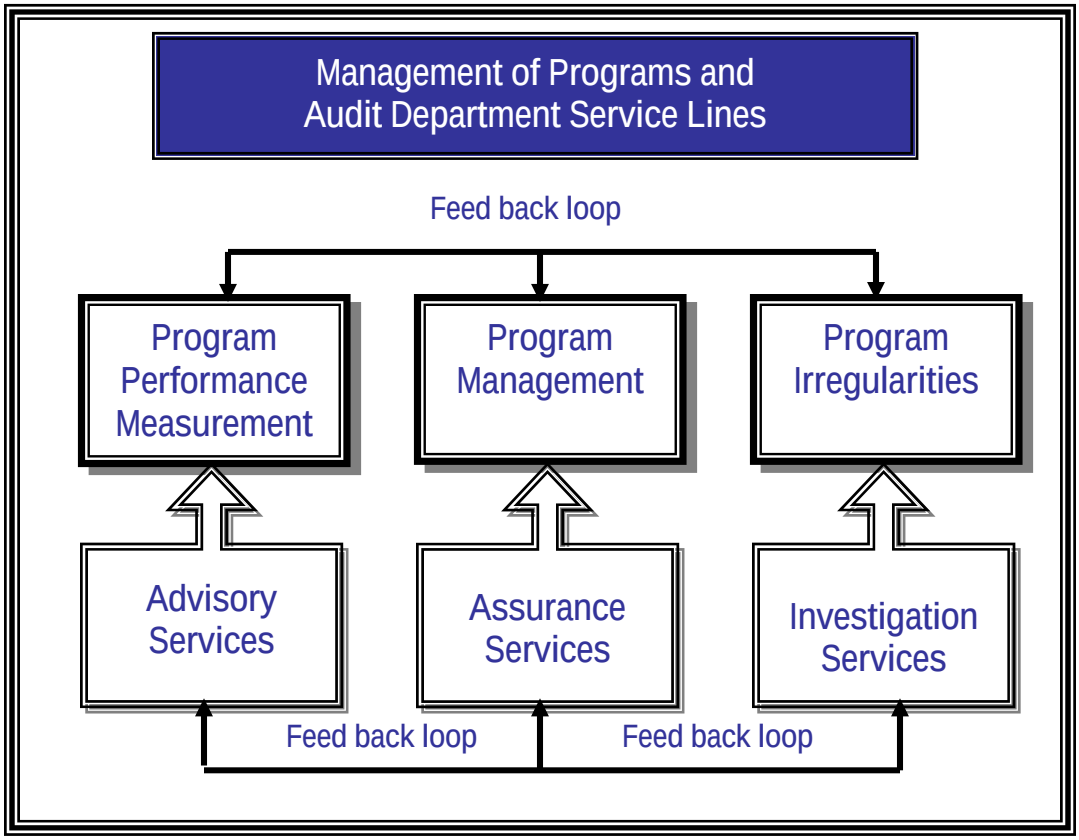
## *Assurance Services*

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
- Performance measures
- 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 four year period to coincide with the term of City Council. The plan is 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 four-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 to the four–year audit plan will be reported to Audit Committee each year to update the plan.

## *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 four-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 project; 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.
- *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 Our 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 |
| Other Entities | X | | X | X | X | X | X | |

## *Department Resources*

The Department has seven staff and a consulting budget of $35,000 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.

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 2011 and 2012 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 2011 through 2014, 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 2011 with the proposed introduction of the fraud and waste hotline.

## Resources Available (2011)

City Auditor
Deputy City Auditor
Project Leaders (2)
Auditors (2.5)
Consulting Budget of $35,000
Administrative Coordinator (0.5)

## 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 2010, our billing rate was $103 per audit hour.

# AUDIT PLAN 2011 - 2014

## *State of Risk and Control*

As part of our audit planning consultation process, we updated the 2009 Corporate Risk Profile developed in conjunction with our *Integrated Risk Management* initiative (See Appendix A). Most of the significant risks identified in 2009 still require attention. Financial sustainability remains a challenge, particularly to address the deteriorating infrastructure, fund public safety initiatives and 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 balance the budget in future years. 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. While Council direction has been clarified, managers are challenged to respond to multiple priorities with limited resources. Corporate strategic planning and performance management processes need to be enhanced.

## *Audit Focus for 2011 to 2014*

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. In 2009, 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 2011 through 2014. In addition, we will place a particular emphasis on providing assurance on 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 constrained 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 2011-2014 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 2011*

## 2011 PROJECTS

### Advisory 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*

- Corporate Services Transformation Service Level Agreements
- Fraud & Waste Hotline Implementation
- Peer Review

### Assurance Services Projects

*On-going Commitments**

- Collective Agreements Due Diligence
- Councillors' Representation Allowance

*Projects in Progress*

- *Traffic Signals*
- *Animal Services By-law Enforcement*
- *Libraries*
- *Risk Management*
- *Corporate Leadership Training*
- *Assiniboine Bikeway Review*
- *Operational Review of Winnipeg Parking Authority*

*New Projects***

- Real Estate - non-monetary grants to not for profits[1]
- Winnipeg Police Service Civilianization
- Winnipeg Police Service contract with Winnipeg Airport Authority
- Aquatics Programs

[1] Approved in Audit Plan 2009-2010

## *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, different 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 2012*

| 2012 PROJECTS | |
|---|---|
| **Advisory Services Projects** | **Assurance Services Projects** |
| *On-going Commitments* | *On-going Commitments** |
| • Assessment Communications Task Force<br>• Quarterly Report Card and Follow-up<br>• Corporate Performance Measurement<br>• Corporate Services Transformation<br>• Service Level Agreements | • Collective Agreements Due Diligence<br>• Councillors' Representation Allowance |
| *New Projects* | *New Projects*** |
| • Transit Fare Collection System | • Corporate Performance Measurement<br>• 311 Contact Centre[1]<br>• Hospital Off-load Times<br>• Neighborhood Revitalization<br>• Grant Accountability Follow-up Audit<br>• Liabilities for Contaminated Sites |

[1] Approved in Audit Plan 2009-2010

## *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, different 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 2013*

| 2013 PROJECTS | |
|---|---|
| **Advisory Services Projects** | **Assurance Services Projects** |
| *On-going Commitments* | *On-going Commitments** |
| • Assessment Communications Task Force<br>• Quarterly Report Card and Follow-up | • Collective Agreements Due Diligence<br>• Councillors' Representation Allowance |
| *New Projects* | *New Projects*** |
| | • Corporate Performance Measurement<br>• Sidewalk Asset Management<br>• Corporate Exception Reporting<br>• By-law Enforcement<br>• Transit Fare Collection System |

## *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, different 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 2014*

| 2014 PROJECTS | |
|---|---|
| **Advisory Services Projects** | **Assurance Services Projects** |
| *On-going Commitments*<br>• Assessment Communications Task Force<br>• Quarterly Report Card and Follow-up | *On-going Commitments**<br>• Collective Agreements Due Diligence<br>• Councillors' Representation Allowance |
| *New Projects*<br>• Continuous Monitoring | *New Projects***<br>• Corporate Performance Measurement<br>• Recycling & Waste Minimization<br>• Graffiti Control<br>• Veolia Contract Management<br>• Parks & Urban Forestry |

## *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, different 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 2015 and subsequent years. All projects will be re-evaluated annually to ensure continued relevance and priority.

- Archives and Records Management
- Assiniboine Park Conservancy
- Building Operations and Security
- Business Improvement Zone Financial Reporting
- Campus Accommodation Strategic Planning
- Corporate Planning
- Development Agreement Parameters
- Environmental Health
- Employee Benefits
- Implementation of Transit's Capital Program
- Maintenance of Downtown Skywalk system
- North Portage Development Agency
- Procurement and Contract Management
- Recreation Services
- Reporting on Financial Condition of the City
- Survey Infrastructure
- Winnipeg Convention Centre
- WFPS Training Branch
- Winnipeg Housing and Homeless Initiative

Appendix A – Corporate Risk Profile – March 31, 2011

## 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 | Management Processes |
|---|---|---|---|
| Physical Environment (flood) | Compliance with Capital Project Contracts | Mandate – Unclear mandate ↑ | Strategic Planning - Business planning ↑ |
| Government Relationships ↑ | Compliance with Environmental Legislation | Leadership - Balancing competing objectives, ability to adapt to change ↑ | Business Resumption planning - Disaster Management |
| Relationship with Partners ↑ | Compliance with Workplace Health and Safety | Governance Structure - Corporate Services Transformation ↑ | Performance Measurement & Management |
| Public Safety | | | Procurement & Contract Management |
| Addressing the needs of the Aboriginal community | | | |
| Economy | | | |

## 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 |
|---|---|---|---|
| Recruitment ↑ | Financial Sustainability | Integrity – Quality of Information ↓ | Condition |
| Retention (management continuity) ↑ | | | Suitability for Service Level Requirements/Obsolences |
| Labour relations ↑ | | | |
| | | | |
| | | | |

**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.