Winnipeg

Audit Planning Process 2004

July 2004

Audit Department

Leaders in building public trust in civic government

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Audit Department Mandate

The City Auditor is a statutory officer appointed by Council under the *City of Winnipeg Charter*. The Auditor's responsibilities are outlined in Sections 102 to 107 of *the Charter*.

> The City Auditor must ensure that examinations of the operations of the city and each affiliated body are made at such times as the City Auditor considers appropriate, and in accordance with such terms and conditions as Council may from time to time establish, to determine whether
>
> - *operations of the city are carried on, and money is expended, with due regard for economy and efficiency; and*
> - *satisfactory procedures have been established to measure, and report to Council, on the achievement of economy and efficiency in the conduct of the city and each affiliated body.*
>
> The City Auditor must report to Council in respect of those examinations with any recommendations that the auditor considers relevant. Furthermore, the City Auditor may examine and audit, or cause an examination and audit to be made of, the accounts and financial records of
>
> - *any fund or property held in trust for the benefit or purposes of the city; and*
> - *any person to whom the city or an affiliated body makes, or has made, a financial contribution or a transfer of property for no or substantially inadequate consideration.*
>
> Finally, under Section 105, Council may direct the City Auditor to examine and audit
>
> - *anything done by the city or an affiliated body;*
> - *any person to whom the city or an affiliated body has made a financial contribution or a transfer of property for no or substantially inadequate consideration; and*
> - *report as directed by Council in respect of the examination and audit.*

In 1989, City Council expanded the responsibilities of the Audit Department to include acting as an internal consulting group to the Administration. In this capacity, the Department provides advisory services for significant initiatives and accepts requests for special reviews. These services are discretionary and dependent upon the department's capabilities and resources.

Audit Department Vision, Mission and Key Goals

Our vision

The vision of the Audit Department is to be "*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 mission

The mission of the Audit Department is *"to support Council and the 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 key goals

Our key goals are

- *to provide assurance on the effectiveness of the City's risk management practices and the efficiency and effectiveness of City operations;*
- *to influence the achievement of organizational objectives by fostering improvements in governance, risk management, controllership and performance;*
- *to improve the adequacy and quality of information used and reported by City Administrators and Council; and*
- *to develop, implement and promote innovative strategies to enhance the value of Audit services and optimize our resources.*

Departmental Business Lines

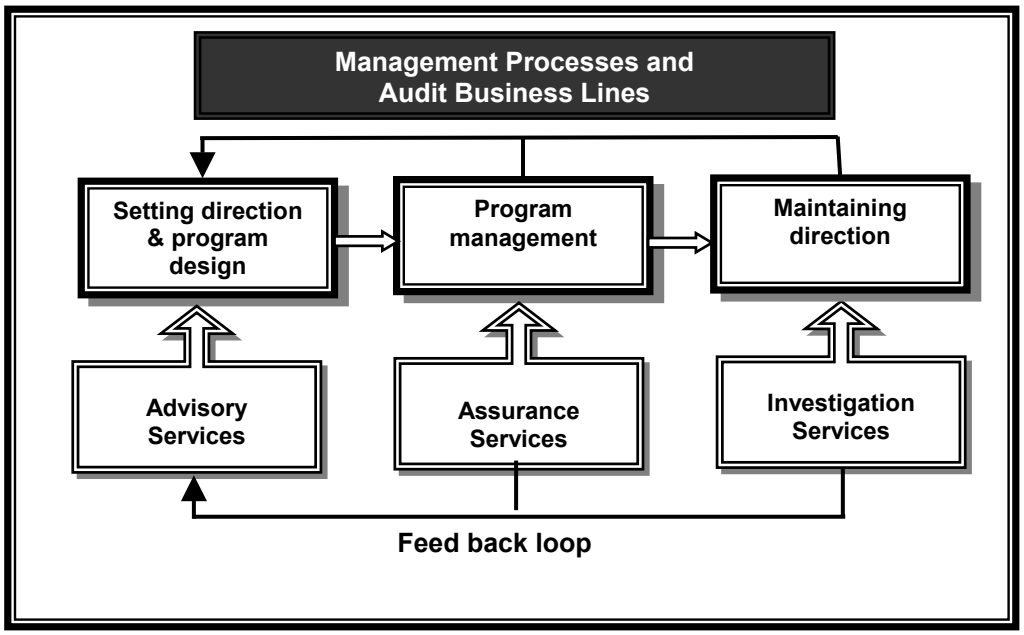
It has long been recognized that a review of historical processes and records is only a limited part of the role of the modern auditor. The new auditor focuses on the organization's business objectives and associated risks and serves the client in many roles:

- *proactively*, as a risk management and control design specialist;
- *routinely*, to provide independent assurance; and
- *periodically*, as an expert investigator when the system fails.

Modern Audit Focus

Elements	Questions
Business objectives	"Where do you want to go?"
Performance measurement	"How will you know when you get there?"
Risks	"What can get in your way?"
Controls	"What can help you get there?"
Assurance	"How do you know?"

Through experience, we have identified three business lines that, used together, introduce, reinforce and measure the outcomes we want to achieve. These business lines are described below.



Advisory Services

Activities carried out under this business 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

Assurance Services

Assurance services are defined as *independent professional services that improve the quality of information, or its context for decision makers*. The definition identifies the customer for the service (the decision maker) and the benefit of the service to the customer (better decision-making information). 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
- Due diligence reviews
- Control and risk self-assessments

Mandatory Reviews

- *Due diligence on collective agreements* – In February 1997, Council adopted a policy requiring "that prior to any ratification vote by Council on any collective bargaining agreements, that it be presented by the Civic Administration, the City Auditor and the external auditor, with a full and long term cost impact analysis of any such recommended agreements".

- *Councillors Representation Allowance Fund (CRA)* – In accordance with Council policy, the Audit Department is responsible for conducting an audit "to provide an opinion to the Secretariat Committee and Council on whether expenditures reported in the annual report by ward of CRA expenditures comply, in all significant respects, with the provisions of the CRA policy requirements and principles".

Performance audits

Performance audits evaluate the economy, efficiency and effectiveness of civic entities by examining and assessing resource use, information systems, and delivery of outputs and outcomes including performance indicators, and monitoring systems and legal and ethical compliance. Audits may be broad or narrow in scope and range from a substantive review of the operations of a department to a focus on control over a particular administrative policy or process. Performance audits can be conducted on public services, internal services, wholly-owned corporations and special operating agencies, bodies which support Council, administrative directives, corporate processes, recipients of grants, and use of reserve funds.

Control and risk self-assessments

Although traditional assurance services continue to be an important part of our business, to educate our clients on modern concepts of control and provide more cost-effective service, we have introduced *Control and Risk Self-Assessment (CRSA)* to our assurance activities. We utilize approaches such as facilitated sessions or self-assessment questionnaires, as appropriate in the circumstances. CRSA activities may be carried out as a separate engagement or as part of a performance audit.

Investigation Services

Under this line, we initiate specific 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. These reviews are typically limited in scope. The City's *Code of Conduct* is often used as a starting point. We also make reference to a draft *Corporate Fraud Directive* that is being developed to discuss the protocols and respective roles of the Department and the Administration for investigating alleged misappropriations or wrongdoing.

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 involvement of clients and stakeholders in the audit process.
- It ensures that all business units (and associated risks) are considered for audit attention.
- It serves as a standard against which to measure the performance of the Audit Department.

In determining the timeframe for the audit plan, it is necessary to balance commitments for performance measurement purposes with the need to be flexible given the changes inherent in a dynamic environment. The priorities established reflect a risk assessment at a given date. As circumstances change, relative risks and priorities shift. For this reason, while we conduct a relative ranking of entities for the entire audit universe periodically, we also prepare an *Annual Audit Plan* that provides commitments for all of our business lines. It is for this plan that we seek Audit Committee input on an annual basis.

Building a risk management model

During 2003 and 2004, the Audit Department worked with the CAO Secretariat to develop an *Integrated Risk Management* model for the City. As a result of the initiative, the Administration produced risk profiles, using common criteria, for all key services as well as a corporate risk profile for the City as a whole. Risk action plans were required to be prepared and communicated in departmental business plans for key risks identified. One outcome of this process was the Audit Department's ability to provide assurance that the City does have an effective risk management process in place and that significant risks have been identified with plans developed to manage these risks. It is anticipated that departments will comment on the effectiveness of their risk management plans as a component of performance reporting. The Audit Department's role is to provide independent assurance on the effectiveness of risk management strategies through the auditing process.

Selection of projects

To build the current audit plan, the Department utilizes the risk profiles contained in the Business Plans, supplemented with approved budget information and interviews with Council members, the CAO and Department heads. All potential projects are rated against common risk criteria to determine relative priority. Where the priority is high from a risk perspective, congruent with the Department's key goals, and resources are available, the assignment is selected for inclusion in the *Annual Audit Plan.*

In determining where to allocate resources, the Department considers several factors:

- The total resources and competencies available both internally and externally.
- The percentage of time to be dedicated to each business line.
- The percentage of resources to be reserved for mandated reviews and in-year requests.
- The desire to provide balanced coverage across the organization with respect to the individual departments, public and internal services, and corporate processes and initiatives.
- The relative risks associated with each potential audit candidate and the congruence with the Department's key goals.
- The optimal timing of Audit intervention.

As a first principle, the Audit Department plans to focus its resources on those areas that represent the greatest risk to the organization being unable to achieve its business objectives. Having said this, however, other factors need to be considered. The Department attempts to provide balanced coverage across the organization and across the types of services delivered. While the extent of audit may vary, we believe that all units of the organization should be subject to at least an annual risk assessment. While cyclical audits are not generally regarded as either realistic or appropriate, we nevertheless believe that all departments benefit from some Audit attention over a reasonable timeframe.

Determining the focus of Audit attention is a question of establishing where the Department can add the most value given the particular needs of the organization. Timing of our intervention may also be an issue. A traditional audit role is valid in many circumstances and is the approach most closely aligned with the Department's primary mandate to provide assurance. Yet this role would be clearly inappropriate at the design phase of a new program or initiative where it may be preferable for the auditor to serve in an advisory capacity as risk management strategies and controls are developed. The best approach may vary from department to department and over time within the same department. It is often linked to the quality of the control environment of the entity and the maturity of its risk management framework. In

keeping with our philosophy of promoting organizational learning, we approach each potential assignment from the perspective that we believe will add the most value.

In the past several years, as the City transitioned to the new CAO governance model, the department devoted a great deal of its resources to working with the Administration in an advisory capacity to develop new policies, processes and accountability structures. At this point in the organizational life of the City, while we still believe that a balanced approach is required, we need to shift more of our resources to providing independent assurance. Many of the new corporate processes and initiatives have now had time to mature and we believe that an independent evaluation is warranted. We are also cognizant of the increasing pressure to deliver services in the most cost effective manner. Audit can play as role in reviewing service delivery in the context of both city resources and standards for a particular industry. The pressure on our own budget also requires us to ensure that our primary role as legislative auditors is not compromised by a diversion of resources to our discretionary role as internal auditors. To provide this balance, we have established a guideline for allocation of resources to each business line:

Business Line	Guideline
Assurance Services	60 to 80%
Advisory Services	10 to 20 %
Investigation Services	0 to 20 %

Since this is only a guideline, the actual proportion of time spent can vary from year to year. We can use this guideline, however, to ensure that we do not forget our mandated responsibilities to provide assurance in our eagerness to be responsive to our clients' requests.

Given our limited resources, we accomplish this balancing act by structuring the *audit universe* (the sum of all potential audit units) in such a way as to review at least a portion of the operations of each major organizational unit over a five-year period. This means that we may review an entire department from a performance perspective or we may look at a particular internal service such as finance or human resources across all departments.

We also recognize that our resources are limited and that we cannot retain in-house all of the competencies needed to perform the wide range of projects planned. For this reason, we will continue to leverage our resources through partnerships with administrative staff and by co-sourcing projects with the private sector. We have a standing agreement to utilize private resources from the major accounting firms at a fixed rate. Depending upon the circumstances, we pay for these resources through our modest consulting budget or look to our clients for reimbursement. We also use these partnerships as opportunities to transfer knowledge to enhance the competency base of our staff.

Project selection criteria and risk factors

Assurance projects are first determined to be either mandatory or discretionary. Mandatory projects must be scheduled as a priority in the annual audit plan. Potential assurance audits that are not mandatory are grouped according to population type:

- *Public services* – substantive review of whole or part of departmental operations.
- *Internal services* – government-wide functions from a corporate perspective.
- *Wholly owned corporations and SOAs* – substantive review of the whole or part of the civic operation or agency.
- *Governance audits* – areas providing support to Council.
- *Corporate administrative directives and process audits* – compliance with key controls within basic administrative processes.
- *Grant accountability audits* – management and use of funds provided to third parties.
- *Reserves* – management and use of funds in compliance with reserve guidelines

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 expenditure	Impact on Plan Winnipeg	Complexity of Operation	Sensitivity of operation	Political, CAO, Audit Concerns	Risk Profile Score	Last audit review
Public Services	X	X	X	X	X	X	X	X
Internal Services	X	X	X	X	X	X	X	X
SOAs, Wholly Owned Corporations	X	X	X	X	X	X	X	X
Governance Audits	X		X	X	X	X	X	X
Corporate Administrative Directives and Process Audits	X		X	X	X	X		X
Grant Accountability Audits	X					X		X
Reserves	X	X				X		X

The risk factors for each potential audit are rated in accordance with criteria developed for each factor:

Financial Expenditures - Public & Internal Services	Score
Less than $2,500,000	1
$2,500,001 to $7,500,000	2
$7,500,001 to $15,000,000	3
$15,000,001 to $30,000,000	4
Greater than $30,000,001	5

Financial Expenditures - SOAs & Wholly Owned Corporations	Score
Less than $500,000	1
$500,001 to $1,000,000	2
$1,000,001 to $3,000,000	3
$3,000,001 to $5,000,000	4
Greater than $5,000,000	5

Administrative Directives, Corporate Processes, Grants, Reserves	Score
Less than $500,000	1
$500,001 to $1,000,000	2
$1,000,001 to $3,000,000	3
$3,000,001 to $5,000,000	4
Greater than $5,000,000	5

Capital Expenditures - Public & Internal Services	Score
Less than $500,000	1
$500,001 to $5,000,000	2
$5,000,001 to $10,000,000	3
$10,000,001 to $20,000,000	4
Greater than $20,000,000	5

Complexity of Operations	Score
Simple operations, no reliance on highly trained staff, special equipment or new technology.	1
Operations do involve the limited use of highly trained staff, special equipment and new technology.	2
Operations are generally routine. Success is somewhat dependent on highly trained staff, special equipment or new technology.	3
Operations deal with fairly complex matters and success is dependent on highly trained staff, contract management or new technology.	4
Complex operations involving highly trained staff, contract management, equipment and new technology.	5

Sensitivity of Operations	Score
Failure to meet business objectives would result in no significant consequences.	1
Failure to meet business objectives would result in minor consequences.	2
Failure to meet business objectives would result in significant consequences.	3
Failure to meet business objectives would result in major consequences.	4
Failure to meet business objectives could be catastrophic.	5

Impact on Plan Winnipeg Objectives	Score
Service Performance is not significant to the achievement of Plan Winnipeg objectives.	1
Service performance is not very important to achievement of Plan Winnipeg objectives.	2
Service performance is important to achievement of Plan Winnipeg objectives.	3
Service performance is very important to achievement of Plan Winnipeg objectives.	4
Service performance is critical to achievement of Plan Winnipeg objectives.	5

Political/CAO/Audit Concerns	Score
Satisfaction with service efficiency/effectiveness and accountability, no significant change or restructuring of service, no significant senior management turnover, no significant financial changes or downsizing of operations	1
	2
No comment	3
	4
Concern with service efficiency/effectiveness and accountability, significant change or restructuring of service, significant senior management turnover, significant financial changes or downsizing of operations	5

Risk Profile Scoring (Number of High & Critical Risks *2 + Number of Moderate Risks * 1)	Score
Total score <= 5	1
Total Score = 6 to 10	2
Total Score = 11 to 15	3
Total Score = 16 to 20	4
Total score >= 21	5

Date of Last Audit/ Review	Score
Audit/Review conducted in 2003	1
Audit/Review conducted 1 to 3 years ago	2
Audit/Review conducted 3 to 4 years ago	3
Audit/Review conducted 4 to 5 years ago	4
No Audit/Review conducted in past 5 years	5

Advisory and Investigation projects are discretionary. Projects are assessed as high, medium or low priority in accordance with the following factors:

- Corporate Significance
- Congruence with Audit Mandate and Key Goals
- Timing
- Competent Resources Available

Assessment criteria

Corporate Significance	Score
Significant impact on achievement of corporate objectives	5
Medium impact on corporate objectives or high impact on departmental objectives	3
Low impact on business objectives	1

Congruence with Audit Mandate and Key Goals	Score
High relationship to mandate and goals	5
Medium relationship to mandate and goals	3
Low relationship to mandate and goals	1

Timing	Score
Audit intervention is critical	5
Audit intervention is important	3
Timing of audit intervention is not an issue	1

Competent Resources Available	Score
Competent resources are available within the Department staff complement	5
Competent resources can be obtained through partnerships or consulting budget	3
Competent resources are unavailable or must be funded outside of budget	1

Each project is assessed against the criteria provided and the overall score rated as follows:

Ratings

Overall Score	Rating
16 to 20 points	High
11 to 15 points	Medium
5 to 10 points	Low

Projects with a high or medium priority are accepted as resources permit. Low priority projects should be re-considered.