2011 AUDIT PLAN DEVELOPMENT

Sudbury Office of the Auditor General
Bureau du vérificateur général

Presented to the Audit Committee March 2 2011

Agenda

- How we developed the audit plan for program audits
- How we determine what cross-functional audits will be done
- How we conduct an audit
- Progress to date with the audit plan

How we developed the audit plan for program audits

- Our policy and procedures manual provides further detail on how we plan to deliver on our mandate and is being added to the Auditor General's CGS web page
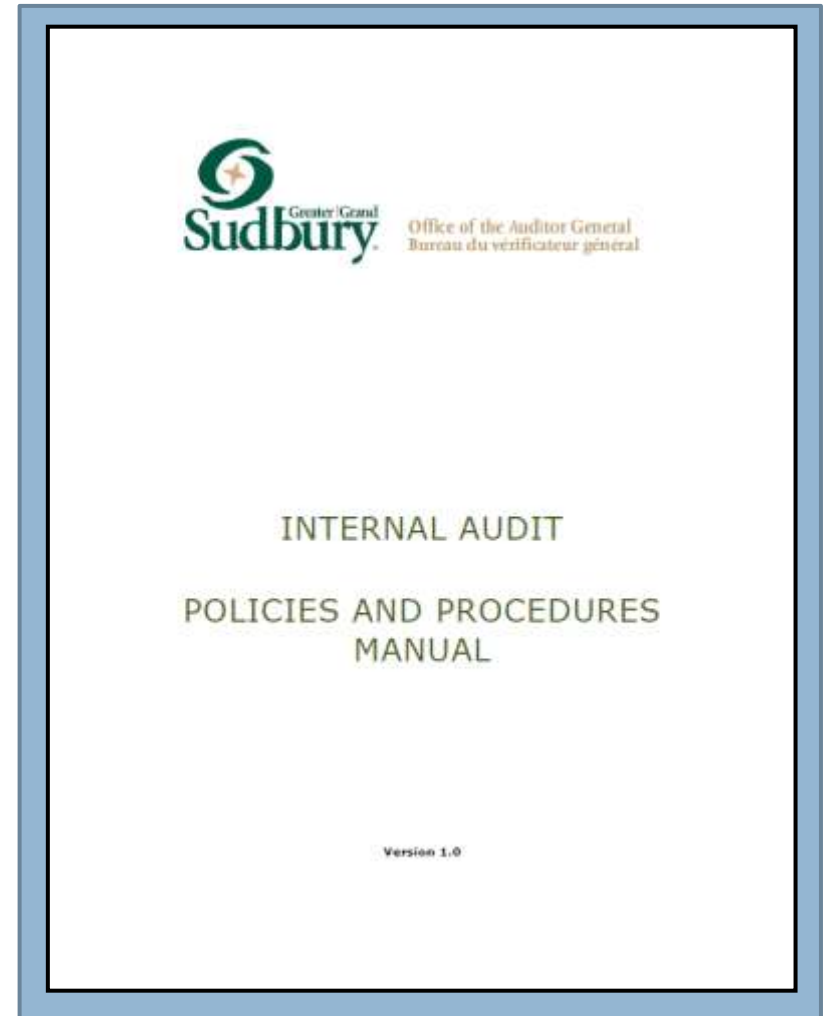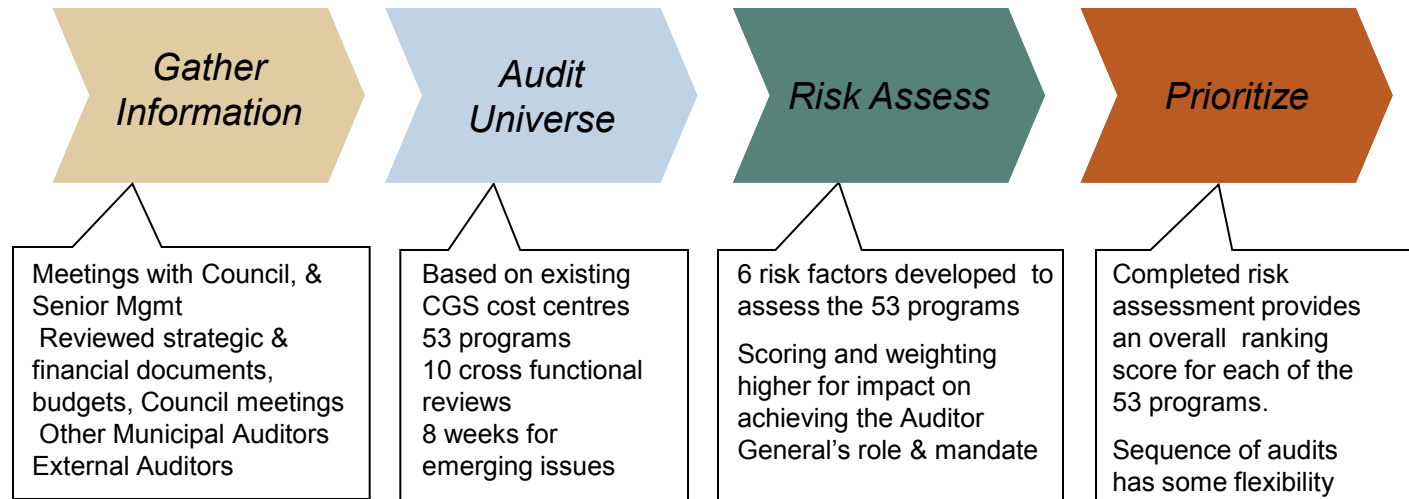
Audit Planning Approach For Program Audits
Our audit universe is based on the CGS cost centre structure

- **Audit Plan**
  - Is the selection of audit projects to deliver on the mandate
  - Is approved by Council through Audit Committee

- **How is the Audit Plan developed?**
  - Information is gathered to understand City operations and possible audit entities.
  - Audit entities are prioritized based on an audit risk assessment.
  - Risk factors were used to prioritize the auditable entities.

Gather Information	*Audit Universe*	*Risk Assess*	*Prioritize*
Meetings with Council, & Senior Mgmt Reviewed strategic & financial documents, budgets, Council meetings Other Municipal Auditors External Auditors	Based on existing CGS cost centres 53 programs 10 cross functional reviews 8 weeks for emerging issues	6 risk factors developed to assess the 53 programs Scoring and weighting higher for impact on achieving the Auditor General's role & mandate	Completed risk assessment provides an overall ranking score for each of the 53 programs. Sequence of audits has some flexibility

Audit Planning Approach For Program Audits
The audit universe was based on CGS cost centre structure

Audit Unit #	Audit Universe	Cost Centres	Services / Programs / Functions	Combined Operating & Capital VFM Rating	Gross Materiality Rating (Net Impact on Operating Levy)	Inherent Risk To Revenues (Fees & Revenues Collected, Grants $ Issued)	Current Council Interest Rating (# Mentions)	Complexity Rating (Est Full FTE Equivalents / # Transactions)	Combined Citizen & Media Sensitivity Rating	Total Score Out Of 3
	Program VFM Audits									
1	**EXECUTIVE AND ADMIN**			1	1	1	1	1	2	**1.10**
	Office Of The Mayor	205								
	Council Expenses	210								
	Auditor General	300	n/a							
	Office of the C.A.O.	250								
2	**ADM. OTHER**			1	2	1	1	1	1	**1.25**
	Comm and French Lang Servic	260	French Language Communications, Media Relations, Visual Identity, Website, Events							
	Admin Serv Exec Directr's Off	1005	**Corporate Projects OMBI / MPMP / CIP** Business Plan Strategic Plan Accessability Plan Quality Accreditation							
	Debt -Contribution to Capital	1010	IT, copiers, print services, telephone, voice mail, VOIP							
3	**LEGAL SERVICES**			1	1	1	1	1	1	**1.00**
	Legal Services	1505	Legislative Legal Services, Prosecution of Provincial Offenses Act Matters Reviews of: Resolutions, Bylaws, agreements, contracts & opinions							
4	**CLERKS SERVICES**			1	1	1	3	1	1	**1.30**
	Clerks Services	1510	Permanent Official Records managemnt, Frreedom Of Information Requests, Birth/Death/Burial records, licenses & permits							
	Election Services	1515	Election every 4 yrs							
5	**PROVINCIAL OFFENCES**			1	1	1	1	1	1	**1.00**
	Provincial Offences	1550	Day to day operations of court, collections of fines, fees, cost & surcharges, revenue net of amts collected and costs are retained							
6	**INFORMATION TECHN.**			2	2	1	2	2	1	**1.75**
	Chief Information Officer	1110	IT Strategic Plan							
	Business Applications	1115	200 business applications							
	Network and Support	1120	1900 workstations @ 110 network sites, 1,800 telephones, 190 cell phones & 220 blackberries							
7	**HUMAN RES PLANNING, PERFORMANCE, COMPENSATION**			2	2	1	2	2	2	**1.85**
	H R Administration	1305	resources planning / succession planning, employee performance & development, Labour relations, Payroll							
	Health & Safety	1310	Health & Safety, benefits & Rehabilitation, Employee wellness,							

Audit Planning Approach For Program Audits
Risk factors developed to align with Auditor General's role.

Risk Factor	Description
VFM / Savings Potential *Score of 1,2 or 3 x 25% weighting*	Potential for cost savings or efficiencies in operations. Key Drivers – 2009 Budget Salaries & Benefits, Contracted Services & 2008 Replacement Cost of Assets. Considers the impact of salaries & benefits, contracted services and the replacement value of tangible capital assets for each program
Materiality *Score of 1,2 or 3 x 25% weighting*	Based on the program's net impact on the operating levy. Key Drivers – 2009 Budget Total Expenditures, Total Revenues . Overall impact on the Net Tax Levy with revenues from internal and external sources net of operating expenditures
Control Maturity *Score of 1,2 or 3 x 15% weighting*	Based on the inherent risk/opportunity to revenues Key Drivers – 2009 Budget User Fees, Other revenues, Grants provided to other organizations . Collect a $ or don't lose a $ = 100% return.
Impact on Priorities *Score of 1,2 or 3 x 15% weighting*	Based on current Council interest through interviews Key Driver - Number of mentions by Council of current opportunities for the Auditor General's office to add value to the organization
Complexity *Score of 1,2 or 3 x 10% weighting*	Based on equivalent # labour resources Key Drivers - Estimate of the amount of labor resources (equivalent FTE's) required to deliver the program or service to the public
Sensitivity *Score of 1,2 or 3 x 10 % weighting*	Based on 2009 Budget Citizen Survey Key Drivers – Derived from the importance and satisfaction ratings provided by the public in the recent 2009 Budget Survey, and number of Media mentions over the last 2 years

Audit Planning Approach For Program Audits
A ranking criteria score provided general timing of audits.

- The audit projects were selected based on the assessed risk ranking, combining all risk factors and prioritizing the higher level risk ranked areas.

- A weighting was applied to each of the risk factors to align with the audit mandate.

- The Audit Plan targets areas where the Auditor General could add value to the City, and takes into account current management actions underway. (Eg. The Winter Control program was being changed)

Audit Planning Approach For Program Audits
Total ranking score provided general timing of audits.

	AUDIT UNIVERSE List Of Auditable Units Based On CGS CostCentre Structure	VFM SAVINGS POTENTIAL 25% x Score	MATERIALITY 25% x Score	CONTROL MATURITY 15% x Score	IMPACT ON PRIORITIES 15% x Score	COMPLEXITY 10% x Score	SENSITIVITY 10% x Score	TOTAL RANKING SCORE (Out Of 3)	Rank
		Risk Scoring Categories							
1	Transit	3	3	3	2	3	2	2.75	1
2	Environmental Services	3	3	3	2	3	1	2.65	2
3	Fire Services	3	3	2	2	3	2	2.60	3
4	Winter Roads Mtce Program	3	3	2	2	2	3	2.60	4
5	Water & Waste Water Linear	3	3	2	2	2	2	2.50	5
6	Housing Services	2	3	3	2	3	2	2.50	6
7	Summer Roads Mtce Program	3	3	1	2	2	3	2.45	7
8	Asset Management Real Estate	3	2	3	3	2	1	2.45	8
9	Asset Management Fleet	3	3	2	2	2	1	2.40	9
10	Parks Services	3	2	2	2	3	2	2.35	10
11	Ont Works Program	2	3	3	1	3	2	2.35	11
12	Engineering Services	2	3	1	3	2	2	2.25	12
13	Water Plants	3	2	1	3	2	2	2.25	13
14	Wastewater Plants	3	2	1	3	2	2	2.25	14
15	Emerg.Serv.Div.	3	2	2	2	3	1	2.25	15
16	Lt Care Senior Serv	3	1	3	1	3	3	2.20	16
17	Water / Wastewater Revenues	1	3	3	3	1	2	2.20	17
18	Community Arena Ctr	3	1	3	2	2	2	2.15	18
19	Community Other Ctr	3	1	3	2	2	2	2.15	19
20	Planning Development	2	2	2	2	2	3	2.10	20
21	Public Libraries	2	2	2	2	3	2	2.10	21
22	Financial Planning & Policy	2	3	1	2	1	2	2.00	22
23	Roads Maintenance Program Other	2	2	1	3	1	3	2.00	23
24	Economic Development	2	2	3	1	2	2	2.00	24
25	Police Services Board	3	3	1	1	1	1	2.00	25

2010 – 2015 Audit Plan

Prioritize

Selection of Program Performance Audits

Focus -VFM
(Quality, Timeliness, Efficiency, Economy, Program Results etc.)

AUDIT UNIVERSE	ANNUAL AUDIT FOCUS (AUDIT WEEKS)					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
PROGRAM PERFORMANCE AUDITS Determine whether a department service or program operates effectively efficiently and economically, and whether risks are managed appropriately.						
Transit	10					
Environmental Services	10					
Fire Services	10					
Winter Roads Mtce Program		8				
Water & Waste Water Linear		10				
Housing Services			6			
Summer Roads Mtce Program	8					
Asset Management Real Estate		10				
Asset Management Fleet		10				
Parks Services			10			
Out Works Program				4		
Engineering Services			8			
Water Plants			8			
Wastewater Plants			8			
Emerg. Serv. Div.				6		
Lt Care Senior Serv		10				
Water / Wastewater Revenues			8			
Community Arena Ctr			8			
Community Other Ctr				8		
Planning Development				8		
Public Libraries				8		
Financial Planning & Policy				8		
Roads Maintenance Program Other				8		
Leisure Rec Services				10		
Greater Sudbury Housing Corp		4				
TOTAL PROGRAM PERFORMANCE AUDITS	38	48	60	60	60	60

Audit Planning Approach For Program Audits
Detailed timing of audit projects and reviews

- The detailed timing of audit projects within the year is flexible, and will consider impacts of program staff availability as well as Audit staff availability, and will be refined in the new year.

- The program audit will begin with a high level scan and then a deep dive into selected areas

- Council may request amendments to the Plan with a 2/3 majority vote.

- The Audit Plan will be reviewed annually for continued relevance and adjustments made accordingly.

How we determine what cross-functional audits will be done

Audit Planning For Cross Functional Audits
2010 -2015 Audit Plan

Prioritize

Selection of Cross Functional Audits & Reviews

Focus
- VFM
- Financial
- Governance
- Risk
- Compliance
- Controls
- Integrity

	2010	2011	2012	2013	2014	2015	6 YR TOTAL # WKS
CROSS-FUNCTIONAL AUDITS Areas identifed as high risk where audit involvement would provide the greatest value. Also provides a presence where Program Audits are not planned for some time.							
Contract Management	6	3	2	2	2	2	17
Timesheets & Payroll	6	3	2	2	2	2	17
Construction Management	5	3	2	2	2	2	16
Payables & Receivables	4	2	2	2	2	2	14
Revenues & Recoveries	4	3	1	1	1	1	11
Procurement	4	3	1	1	1	1	11
Risk Management & Assurance Providers (Legal, Insurance, Health & Safety)	3	2	1	1	1	1	9
Grant & Funding Expenditures	3	1	1	0	1	1	7
Safeguarding of Assets	1	4	0	1	0	0	6
EMERGING ISSUE AUDITS Unforeseen priority projects undertaken at the discretion of the Auditor General.							
Tangible Capital Assets	3	0	0	0	0	0	3
Energy Management	3	0	0	0	0	0	3
Capital Variance & Status Reporting	2	0	0	0	0	0	2
Other Emerging Issue Audits	0	8	8	8	8	8	40
CASH HANDLING AUDITS Review cash handling activities to safeguard against risk and loss.							
Cash Handling	2	2	2	2	2	2	12
AUDIT FOLLOWUP REVIEWS Monitor the effectiveness of management's actions to address reported risks or operational improvement opportunities.							
Audit followup	2	4	4	4	4	4	22
EXTERNAL AUDIT SUPPORT Coordinated audit efforts with external auditors.							
External Audit Support	1	1	1	1	1	1	6
TOTAL OTHER AUDIT WEEKS	49	39	27	27	27	27	
ADMINISTRATION							
Training	2	2	2	2	2	2	
Administration, Stat Holidays, Council / Committee Reporting	7	7	7	7	7	7	
Vacation	8	8	8	8	8	8	
TOTAL PLANNED ADMINISTRATIVE WE	17	17	17	17	17	17	
TOTAL PLANNED AUDIT WEEKS	104	104	104	104	104	104	

Audit Planning For Cross Functional Audits
Potential impacts are evaluated as we learn about the city

IMPACT MATRIX			
Rating	**Descriptor**	**(A) Damages and Liability**	**(B) Operational Effects**	**(C) Reputation**
1	**Insignificant**	• Incur/reduce damages of/by <$35K • Results in no injuries • Very limited exposure of sensitive information • Very limited loss of physical assets • Very minor, non-permanent environmental damage requiring no clean-up measures	• No or very minor improvement/disruption in services, projects or processes • No or very minor gain/loss of service data • No or very minor cost savings/overruns in delivery of services	• No or very minor impact on client trust • No or very minor media attention
2	**Minor**	• Incur/reduce damages of/by $35K - $200K • Minor, non-permanent environmental damage requiring very limited cleanup efforts • Limited exposure of sensitive information • Minor injuries • Limited loss of physical assets	• Minor improvement/disruption in services, projects or processes • Minor gain/setback in achievement of service objectives • Limited gain/loss of service/service group data • Minor cost savings/overruns in delivery of services	• Minor gain/setback in building client trust • Some favourable/unfavourable media attention • Some favourable/unfavourable observations by review agencies • Minimal improvements suggested by external or internal audit • Threat of lawsuit
3	**Moderate**	• Incur/reduce damages of/by $200 K - $1M • Exposure of limited amount of confidential/ sensitive information • Loss of large, but replaceable physical assets • Serious injuries to public/staff • Moderate environmental damage with moderate clean-up effort required, no permanent damage	• Moderate improvement/disruption in essential services • Some gain/loss of service knowledge • Some over/underachievement of service objectives • Some gain/loss of service data • Moderate cost savings/overruns in delivery of services • Moderate source of additional revenue	• Some gain/loss of client trust • Positive/negative media attention • Praise/criticism by review agencies • Strong recommendations from external or internal audit • Out-of-court settlement
4	**Major**	• Incur/reduce damages of/by $1M – $5M • Loss of significant physical asset • Exposure of significant amount of confidential information • Major environmental damage – extended clean-up required/some permanent damage • Serious injuries to public or staff resulting in some permanent disability	• Significant improvement/disruption in delivery of essential services • Significant gain/loss of service knowledge • Significant over/underachievement of service/service group objectives • Significant gain/loss of service data • Significant cost savings/overruns in delivery of services • Significant source of additional revenue	• Significant gain/loss of client trust • Public/media outcry for removal of departmental official • Strong praise/criticism by review agencies • Strong praise/criticism by external or internal audit • Public trial • Significant increase/decrease in quality of life indicators with resulting impact on City image
5	**Extreme**	• Incur/reduce damages of/by >$5M • Loss of key physical assets • Public officials charged criminally • Significant increase/decrease in provincial/federal funding • Irreparable, significant damage to environment • Exposure of critical confidential information • Death and/or significant permanent disability of public or staff	• Unable to perform essential services for extended period • Total loss of service group data • Ability to deliver newly identified essential service • >$5M in cost savings/overruns in delivery of services • >$5M from additional revenue sources	• Public/media outcry for change in administration and council • A Public Inquiry/trial • Very positive/negative public ratings • Very significant increase/decrease in quality of life indicators with resulting impact on City image

Audit Planning For Cross Functional Audits
The likelihood of risks

LIKELIHOOD MATRIX		
Rating	Likelihood Ranking	Probability Of Occurring
1	**Rare** i.e. the event may occur only in exceptional circumstances	Less than 10%
2	**Unlikely** i.e. the event could occur at some time	10%-20%
3	**Possible** i.e. the event should occur at some time	20%-55%
4	**Likely** i.e. the event will probably occur in most circumstances	55%-90%
5	**Almost Certain** i.e. count on it	90%-100%

LIKELIHOOD RATING

	Insignificant	Minor	Moderate	Major	Extreme
Almost Certain	M	M	H	C	C
Likely	M	M	H	C	C
Possible	L	M	M	H	H
Unlikely	L	L	M	H	H
Rare	L	L	M	M	M

IMPACT RATING

Audit Planning For Cross Functional Audits
The likelihood of risks

Risk Rating	Descriptor	Required Actions
C	Critical	• Ownership at Council level • Frequent monitoring and updates to Council • Resources (monetary, personnel and other) assigned on priority basis • Mitigation plan developed and implemented immediately o Highly effective controls and strategies required • Detailed Contingency Plan developed in the case where the mitigation strategy does not succeed
H	High	• Ownership at the Senior Management Level but may be delegated to next level in the Business unit for management of the plan • Action plan developed within 3 months and implemented within next month o Should become part of the Business Unit annual and long term plans. • Monthly reporting to business unit management and quarterly updates to Council as part of risk update

M	Moderate	• Ownership at Business Unit management level
		   o May be delegated to area management as appropriate
		• Action plan developed within as part of annual plan process
		   o Should become part of the Business Unit annual and long term plans.
		• Reporting and monitoring through normal business management systems – monthly or quarterly reports
		• Contingency plan developed for all risk events. Quality and detail of the plan should reflect the impact level and likelihood assumptions.

L	Low	• Ownership at area management level • Action plan developed within as part of annual plan process • Contingency plan developed for all risk events. Quality and detail of the plan should reflect the impact level and likelihood assumptions.

How we conduct an audit

Audit Process
Typical Audit Project Timeline (when all goes well)

Weeks	1	2	3	4	5	6-10	11-12	13-16	17	As Complete
Planning	Initial Plan			Detailed Plan						
Review						Fieldwork				
Reporting							Draft Report		Final Report	

Stakeholder review and comment

Management responses and action plans

1. Terms of Reference
2. Closing Meeting
3. Draft Report
4. Final Report with management actions
5. Report to Audit Committee - public agenda

Audit Process

LEGEND: Management Input / Feedback | Documents Issued

INITIATION

- Select audit based on Risk Based Audit Plan or direction from Council.
- → Issue Audit Start Letter to Program Mgr, Director, GM, CAO, Finance Manager and CFO
- → Understand the audit client and business

PLANNING

- Interview management, key staff and stakeholders
- → Document key systems and processes. Identify best practice examples.
- → Prepare preliminary risk and control assessment.
- → Prepare PRELIMINARY TERMS OF REFERENCE based on preliminary risk and control assessment
- → Receive feedback on PRELIMINARY TERMS OF REFERENCE and risk assessment from Program Mgr, Director and Finance Manager (others as required)
- → Develop audit plan and budget
- → Prepare FINAL TERMS OF REFERENCE and issue to Program Mgr, Director, GM, CAO, Finance Manager and CFO
- → Issue FINAL TERMS OF REFERENCE To Council

FIELDWORK

- Conduct project fieldwork and analysis
- → Update Program Mgr, Director and Finance Manager (others as required) with findings throughout the audit
- → Internally review working papers
- → Conduct Exit Meeting with Program Mgr, Director and Finance Manager to review key issues and findings
- → Develop confidential INFORMAL DRAFT AUDIT REPORT
- → Forward confidential INFORMAL DRAFT AUDIT REPORT to Program Mgr, Director and Finance Manager and meet to discuss observations and recommendations
- → Receive input from Program Mgr, Director and Finance Manager during INFORMAL DRAFT AUDIT review meeting
- → Clarify, confirm or validate Program Mgr, Director and Finance Manager input where required

REPORTING

- Incorporate Program Mgr, Director and Finance Manager input into the FORMAL DRAFT AUDIT REPORT as appropriate
- → Forward FORMAL DRAFT AUDIT REPORT to Program Mgr, Director, GM, CAO, Finance Manager and CFO (HR and Legal as required)
- → Receive responses to the FORMAL DRAFT AUDIT REPORT from the Program Manager within 10 working days (distribution limited to Director, GM, CAO, Finance Manager, CFO - HR and Legal as required)
- → Auditors review responses to the FORMAL DRAFT AUDIT REPORT (action plans and commitments) audit recommendations
- → Auditors review and separate confidential HR or Legal issues
- → Prepare FINAL AUDIT REPORT and Executive Summary incorporating management responses and any Auditor's comments

- Provide copies of the FINAL AUDIT REPORT to Program Mgr, Director, GM, CAO, Finance Manager and CFO (HR and Legal as required) within 10 working days
- → Attach FINAL AUDIT REPORT To Audit Committee Agenda within 5 working days
- → Council review FINAL AUDIT REPORT, including the adequacy of management responses to audit concerns
- → Auditor General presents a power point summary of key findings and recommendations to Audit Committee (open meeting)
- → Program Mgr, Director, GM, CAO, Finance Manager, CFO (HR and Legal as required) and Auditor General, respond to any questions from Audit Committee regarding action plans and responses
- → Audit Report and management action plans, commitments and time lines adopted by Audit Committee, (including any direction provided by council through resolution as required)

IMPLEMENTATION

- Management implements their action plans in accordance with their time lines and commitments
- → CAO, (or GM, or CFO) reports back to Audit Committee on action plans and their status within 60 days and quarterly thereafter.
- → Auditor General tracks the status of management's action plans and successful resolution of key findings and reports any concerns or outstanding items to Audit Committee in Quarterly updates
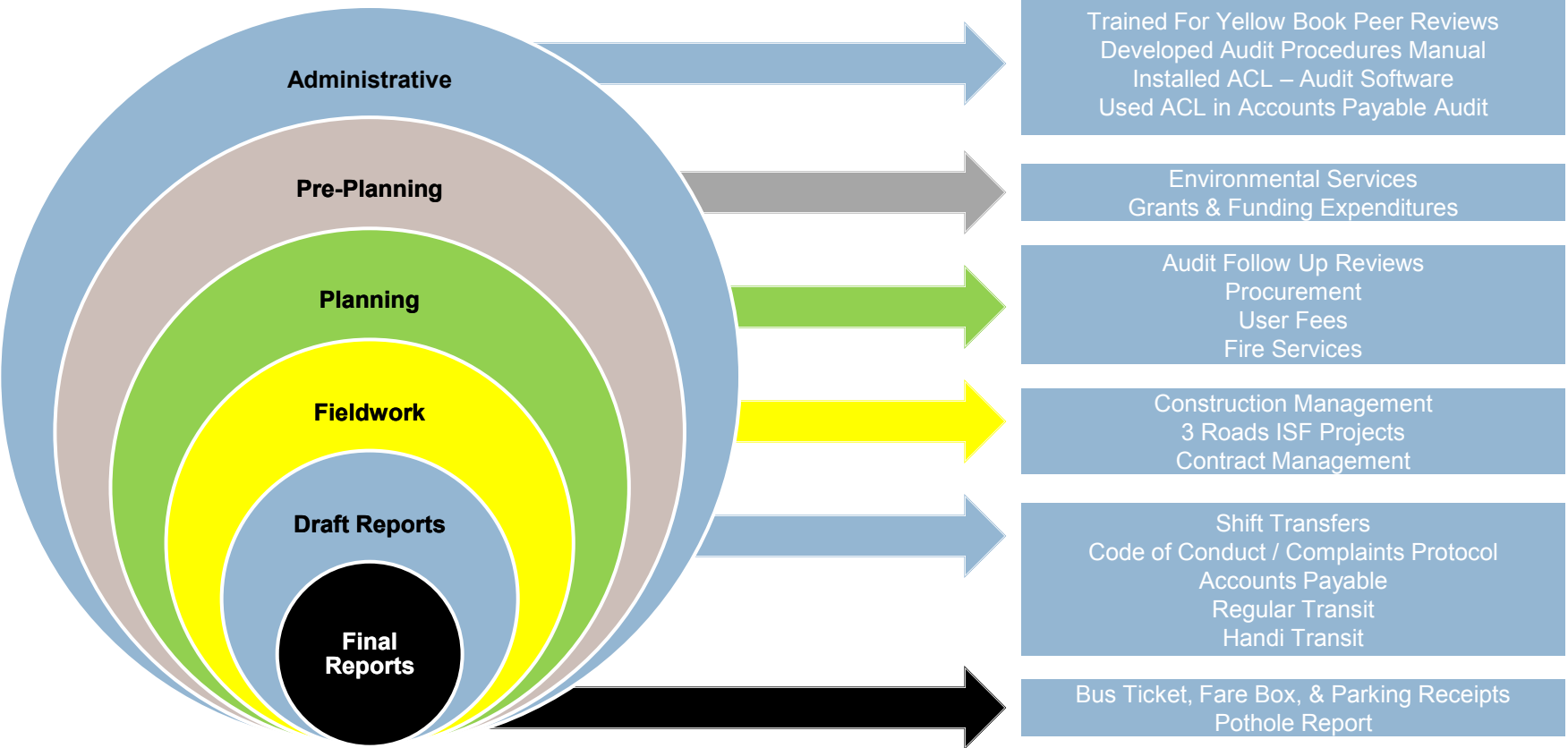
What We Did In 2010

Council approval to begin auditing was granted, and the "Pothole Audit was initiated on February 01, 2010

Administrative

Pre-Planning

Planning

Fieldwork

Draft Reports

Final Reports

Trained For Yellow Book Peer Reviews
Developed Audit Procedures Manual
Installed ACL – Audit Software
Used ACL in Accounts Payable Audit

Environmental Services
Grants & Funding Expenditures

Audit Follow Up Reviews
Procurement
User Fees
Fire Services

Construction Management
3 Roads ISF Projects
Contract Management

Shift Transfers
Code of Conduct / Complaints Protocol
Accounts Payable
Regular Transit
Handi Transit

Bus Ticket, Fare Box, & Parking Receipts
Pothole Report

Audit Process
What happens during an audit?

Audit Phase

Reporting Audit Findings

Office of The Auditor General

- From B Page 2

- Document Audit Findings & Recommendations → Provide Draft Audit Findings & Recommendations
- Revise Audit Findings & Recommendations
- Draft Audit Report
- Finalize audit report & issue

Audit Committee

- Yes
- No
- Summary Report to Audit Committee → End

Manager

- Review Audit Findings & Recommendations → Discuss with Auditor General during Audit Closing meeting → Changes required?

Appendix 1: Audit findings to be made public

Appendix 2: Audit findings classified as confidential only if: compromise the security of property or the legal position of the City or indentify a person (MFIPA)

Director

- Review Draft Audit Report → Classification of finding concern? → Receive Final Audit Report
- No

General Manager

- Concern related to publically reporting finding
- Yes → Go to A Page 2

Audit Process
What happens during an audit?

Audit Phase

Reporting Audit Findings – Audit Committee Guidance
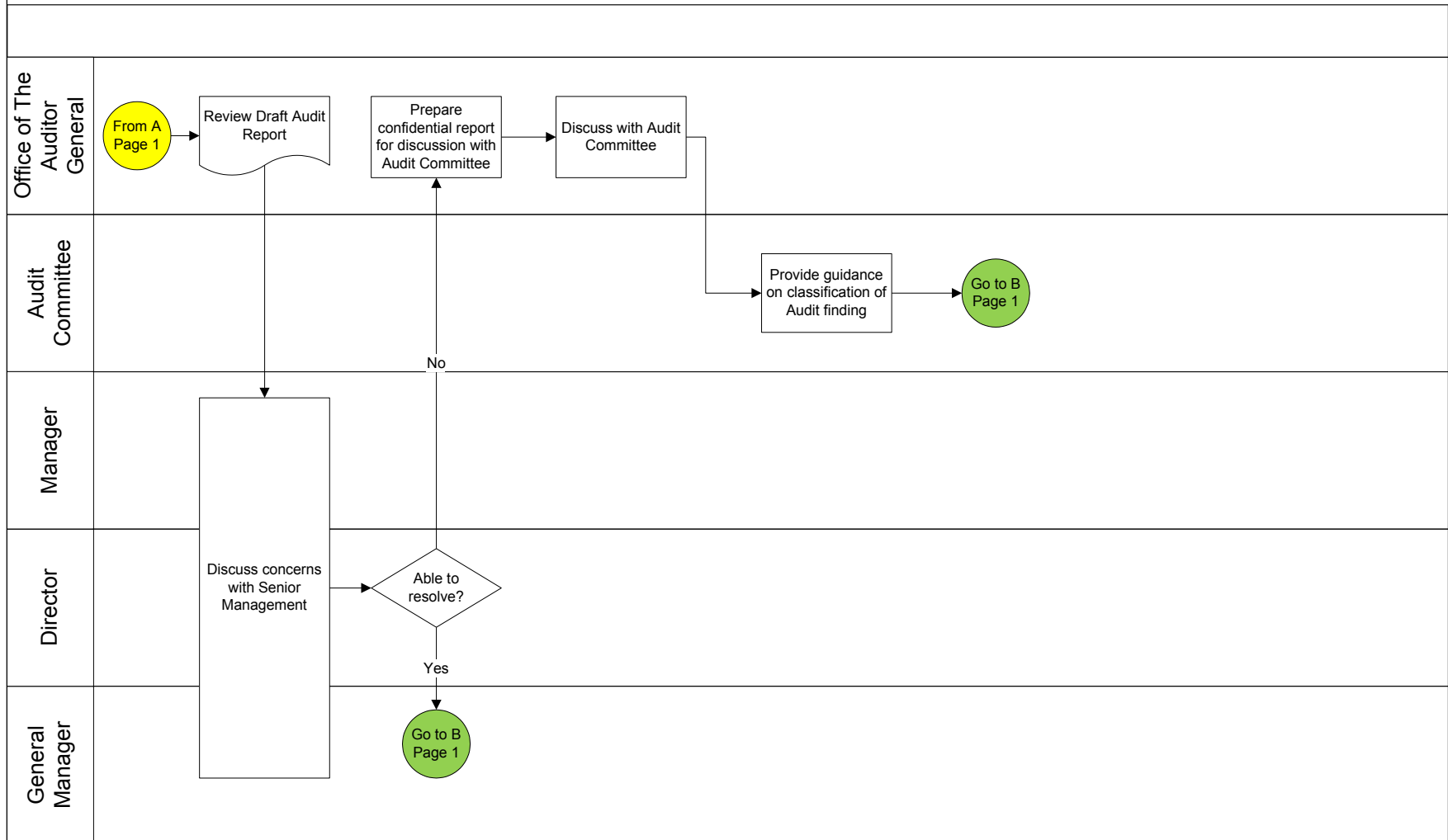
Progress to date with the audit plan

Audit - 2010 Plan Status

Program Audits	Scope		Audit Stage
Transit Services	Regular Transit	🔵	Draft Report
	Handi Transit	🔵	Draft Report
Fire Services	Fire Services	🟢	Planning
Environmental Services	Environmental Services	⬡	Pre-Planning
Cross-Functional Audits			
Contract Management	Transit Ticket Sales Contract	🟨	Fieldwork
Timesheet & Payroll	Transit Shift Transfers	🔵	Draft Report
Construction Management	Roads Warranty & Acceptance	🟨	Fieldwork
Payables & Receivables	Accounts Payable	🔵	*Draft Report*
Revenues & Recoveries	User Fees & Recoveries	🟢	Planning
Procurement	Selection Criteria & Disclosures	🟢	Planning
Risk Management & Assurance Providers	Codes of Conduct, Complaints Protocol	🔵	*Draft Report*
Grants & Funding Expenditures	CIP, NIP, Discounts, Fees Waived	⬡	Pre-Planning
Safeguarding of Assets	Roads – Grindings	🟩	Fieldwork
Cash Handling			
Transit & Parking Cash Offices	Bus Ticket, Fare Box, & Parking Receipts	⬛	Final Report
Emerging Issues			
Roads Miscellaneous Winter Maintenance	2008-2009 Winter Pothole Season	⬛	Final Report
Contract Management & Invoice Payment	3 ISF Projects – VFM & Control	🟨	Fieldwork
Audit Followup			
Roads Miscellaneous Winter Maintenance	Implementation Status of Management	🟢	Planning
Transit & Parking Cash Offices	Action Plans	🟢	Planning

QUESTIONS?