

Request for Decision

Auditor General's 2014 Audit Work Plan

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Wednesday, Jun 11, 2014
Type:	Presentations

Recommendation

THAT the City of Greater Sudbury receive the Auditor General's Audit Work Plan for 2014 as outlined in the report dated June 11, 2014.

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Jun 11, 14

Summary

The purpose of this report is to provide City Council with details of the Auditor General's 2014 Audit Work Plan.

Financial Impact

The recommendation in this report has no financial impact beyond the amount provided in the Auditor General's 2014 budget request.

The Planning Context

The Auditor General reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations. In doing so, the Auditor General's Office is guided by the definition of internal auditing provided by the Institute of Internal Auditors, and the International Professional Practices Framework.

• "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

• International Professional Practices Framework ("The Red Book")
2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal

auditors, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

AG Audit Activities Regarding 2110.A1 (Employee Code Of Conduct)

As noted above, the internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

During our first audit in 2010, the auditors observed that the City did not have a formal code of conduct for employees.

Through our audit, it came to our attention that the City of Greater Sudbury did not have a comprehensive formal Code of Conduct that was reviewed and/or updated annually with its employees. As a result, we issued a memo to City Administrators, encouraging the development of a formal Code Of Conduct document. (We also provided management with a copy of the City of Ottawa's Code of Conduct as an example)

Our memo stated that, "A formal Code of Conduct is a necessary element of good governance which provides ethical guidelines for employees. It also increases transparency, integrity, objectivity, fosters public trust and citizen confidence in the administration of government and government officials and gives employees some guidance if they should find themselves in situations where there is no obvious "right" way to act. Adopting a comprehensive Code of Conduct demonstrates that the City is promoting and maintaining the highest standards of business conduct.

Members from all levels within the City should be involved in creating a Code of Conduct. Therefore, the final result is representative of the moral and ethical character of the group. A Code of Conduct is simply a formal statement of the policies and principles of conduct the City has always embraced. It should bring

together the principles contained in various City documents, departmental policies and plans. The Code of Conduct is a dynamic document and should also be continuously reviewed in order to determine if additional provisions need to be clarified, rewritten or eliminated.

Upon amalgamation, the City did establish an Employee Handbook. Section D of this document outlines employment rules and policies; however the document had not been updated since 2003. In our rapidly changing environment, we would recommend that the Code of Conduct be a dynamic document and should also be continuously reviewed in order to determine if additional provisions need to be clarified, rewritten or eliminated to provide employees guidance on emerging subjects.

The Code of Conduct should be clear and objective and outline a fair process by which to determine whether a violation has occurred. It should allow anonymous communications while also providing protection for any person reporting questionable behavior.

Suspected violations should be investigated promptly by the appropriate department (e.g. legal, human resources, internal audit).

Review, investigation and resolution of code violations should be delegated to a group within the organization with enough authority to enforce conclusions reached, and provide a safe outlet for any municipal employee to raise concerns without losing confidentiality.

Currently, there is no established process that allows for anonymous communication of suspected violations nor is there a formal process for investigating these allegations. We would recommend that a formal reporting and investigation process be established to investigate alleged violations to the Code of Conduct.

The Code of Conduct should be disseminated to all levels of employees. It should be reviewed with all employees annually as well as reviewed with all new employees on commencement of employment. Situations change during the course of one's employment and conflicts of interest can arise. We recommend that every employee sign and disclose any conflict of interests annually. This information can be collected electronically."

Audit Consultants

In 2013, City Council directed the CFO and CAO to engage experts to review the external peer review for the office of the Auditor General conducted by the Institute Of Internal Auditors in March 2012. Two specific matters for consideration were to "Re-evaluate the audit approach, and "Enhance Audit Committee oversight".

In his report, Mr. Key observed that; "The Municipal Act addresses the responsibility of council to governance and risk management in Section 224.d.1: " ... ensure the accountability and transparency of the operations of the municipality, including the activities of the senior management of the municipality.", and,

"The effectiveness, maturity, and value of any internal audit assurance function is in large part dependent on the maturity of the governance and risk management structures and processes of any organization. Governance and its component risk management form the foundation of an internal audit process that is risk-based and which adds value to any enterprise.", and,

"grounded in good governance, risk management, and audit oversight principles; stakeholders will be assured that city resources will be managed more efficiently and more effectively toward CGS's objectives of environmental sustainability, infrastructure renewal, positive economic environment, and a healthy community."

AG Shenandoah Report Related Activities In 2013

The AG 2013 audit work plan was provided to Council on Tuesday, April 16, 2013 and included the following: "In 2013, City Council directed Administrators to provide a review of the audit activity to guide Council in determining the future direction of audit oversight at the City. Stakeholders should note that the Auditor General's work plan may be significantly impacted by the observations, conclusions and recommendations of Mr. James Key of The Shenandoah Group, in a report to Council expected May 2013."

In response to recommendations of the Shenandoah Report, I have networked with my peers, and reviewed the applicability of the COSO Integrated Framework Of Internal Control for government. I have found that the COSO framework is viewed as best practice by many local government audit peers. COSO has been adapted and adopted for government use through the "Green Book" standards developed by the GAO (Government Accountability Office) in the United States.

In a May 2013 presentation to the Audit Committee, Mr. James key included the following comments.

Opinion of Stakeholders

- Positive about value of effective IA process to add value and improve operations
- Positive values of public service - "Integrity, transparency, competence, improve community, honesty, trust, credibility
- Strong desire to improve IA process to be strategically focused and risk based

• Process must be collegial

• Reports must be timely and include management responses

Mr. Key also noted that issues between Auditors and Administration needed to be resolved before bringing the Auditor General's reports forward to the Audit Committee, and the public. (The process must be collegial, and reports must be timely and include management responses.)

Administration's interpretation of the above has resulted in extended delays in provision of access to information, extended delays in provision of management responses and repeated deferrals of Audit Committee meetings. The Administration has adopted their own audit response protocol which closely resembles the Freedom Of Information request process applied to information requests submitted by the public.

AG Audit Activities In 2013

- Recruited a full time Senior Auditor. (hired mid March 2013)
- North American Recognition from the Association Of Local Government Auditors, with a Knighton Award (Silver), for Small Audit Shop Audit Report referring to our 2012 audit of Changes To Road Design.
- Developed and presented an Audit Protocol for Council's information.
- Redesigned our audit reports to a more compact format.
- Completed and presented our audit of the Transit and Community Arena Advertising Contract. (Received positive feedback from Council on the new format.)
- Redesigned our approach to the monitoring (follow up) of audit results.
- Provided eight follow up reports to Council.
- Provided two detailed Progress Assessment Reviews to Council.
- Obtained Council's authorization to award a three year contract (with the possibility of renewal) to aid in the recruitment of a Senior Auditor.
- Recruited and hired a temporary Senior Auditor to assist on the competitive procurement audit during October & November.
- Completed extensive planning and fieldwork on our largest audit project so far. An audit of competitive procurement.
- Reviewed and investigated various Integrated Internal Control Frameworks. The widely recognized and recently updated COSO model was used as a point of reference for the Competitive Procurement Audit.
- Two investigations of complaints received by the Auditor General were initiated.
- Recruited a full time Senior Auditor (start date mid February 2014)

The Planning Process

In the past, like many other internal audit functions, the Auditor General's office performed a risk assessment and rated the various elements in the audit universe (e.g., locations, business units, processes, and projects) based on an audit assessment of risk. The elements with the higher risk ratings were then prioritized for audit, and the scope of each audit was defined based on the higher risk areas within that area.

This is a very common approach to internal audit planning, but, there is an underlying assumption that sufficient audit resources will be available to support this risk based audit approach.

With limited audit resources, the Auditor General office's approach today is different. Instead of starting with an assessment of the entire audit universe, we start with the risks to the enterprise as a whole. We are concerned with the risks that may impact the achievement of the broad array of City objectives. We are focused on the importance and satisfaction ratings that taxpayers have provided in the past for various services. As a result, risks (and audits) are tied to the City's Mission, Vision, Values, business plans, goals and service delivery objectives.

The more significant risks have included: our implementation of a new functionality to the enterprise resource planning (ERP) system; major construction or re-construction of a City assets, or transparency and fairness of competitive procurement.

The goal is to provide assurance on how well management's processes are able to manage significant risks. The audit plan includes projects to identify and assess the controls, processes, and assumptions that management is relying upon to manage the ERP implementation, construction project or procurement process.

So instead of using risk assessment to determine which audit universe elements we will include in the audit plan, we are auditing the processes and controls relied upon to manage the more significant risks to the enterprise.

Comments On The 2014 Audit Workplan

The 2014 Audit Work Plan is attached below and is provided to the Audit Committee as a combination of audits in progress and audits planned for the remainder of 2014 and beyond. The plan outlines the Auditor General's expected order of completion for the proposed audits.

The 2014 Audit Work Plan provides City Council with an overview of how resources allocated to the Auditor General's Office may be used. The Audit Work Plan is intended to be flexible and may be amended by the Auditor General as required. The bylaw establishing the Auditor General's Office provides that once established, "no deletions or amendments to the annual audit plan shall be made except by the Auditor General, however, Council may add to the annual audit plan by a two-third majority vote." As always, these projects have been identified on the basis of risk, where audit or review procedures are expected to present the greatest organizational value for the time committed.

The Audit Committee will note that this year, the Auditor General's plans have been significantly impacted by recommendations found within the Shanendoah Reort, and the related requirements of the Institue Of Internal Auditors.

AG Duties

2. Plan, conduct, evaluate and monitor results of financial, compliance and performance (value for money) audits (except the annual attest audit) of all programs, activities and functions of CGS, including departments, agencies, boards and commissions, and the offices of the Mayor and members of Council.

As in the past year, our audit work plan will also include monitoring of the results and status of completion of management's action plans to ensure that the intended results are achieved.

AUDITOR GENERAL'S OFFICE

AUDIT WORK PLAN 2014

Audit Focus	Projects identified where audit or review procedures are expected to present the greatest organizational value for the time committed	Proposed Order of Audits
Value For Money	Finance Services - Competitive Procurement	1
Quality Of Safeguarding Of Assets	Infrastructure Services, Finance Services, Administrative Services, HR Services - Confirming Minimum Training Requirements Of Contractors	2
Value For Money	Planning & Development - Environmental Services Waste Collection Contracts	3
Value For Money	Infrastructure Services, Finance Services - Payments For Construction Work & Materials	4
Value For Money	Planning & Development - Building Services, Committee Of Adjustments - Building Permits and Inspections	5
Value For Money	Community Development - Greater Sudbury Housing Corporation	6
	<u>FUTURE AUDITS</u>	
Quality Of Safeguarding Of Assets	Administrative Services, Clerks - Freedom of Information Request Process	
Quality Of Safeguarding Of Assets	Administrative Services, Technology - Document Management and Record Retention	
Quality Of Safeguarding Of Assets	Administrative Services - Information Technology - GRC Review	
Quality Of Safeguarding Of Assets	Executive, Departmental, Divisional & Program Management – City of Greater Sudbury - GRC Review	
Quality Of Safeguarding Of Assets	Administrative Services - CGS Citizen Interface (311 System)	
Value For Money	Corporate Wide, Finance Services - Pricing and Discount Agreements (Procurement Phase 2)	

Value For Money	HR Administration, Finance Services - Position Management	
Quality Of Safeguarding Of Assets	Executive - Healthy Community and Executive Office Expense Review	
Quality Of Safeguarding Of Assets	Executive - Corporate Grants, Donations and Contributions	
Value For Money	Infrastructure Services - Storm Water Drainage Systems	
Value For Money	Administrative Services - Information Technology	

Contact

Auditor General's Office

Brian Bigger, CPA, CGA, CRMA

Auditor General,

Tel: 705-674-4455 ext 4402,

E-mail: brian.bigger@greatersudbury.ca