

# **Town of Markham Auditor General**

*For Information*

**Presented on October 27, 2008**

**To: General Committee**

**By: Ingrid Kutter, Auditor General**

# Agenda

- Introduction
- Audit Mandate
- Audit Methodology
- 2009-2011 Audit Plan
- Next Steps

# Introduction

- Purpose of Today's presentation
  - Provide General Committee an understanding of the audit process
  - Inform General Committee of the Auditor General's multi-year Plan
  - No action required from today's presentation
- Background
  - Council resolution on October 9, 2007 approved the Auditor General position and scope of services.
  - Auditor General started on May 26, 2008.
  - Auditor General activities to date focused on developing the audit methodology and a multi-year plan based on information gathered through:
    - Meetings with Councillors and Senior Management
    - Review of strategic, financial, budget and process documentation
    - Review of other municipalities' audit plans and audit results
    - Seven risk workshops with selected Town departments

**In November 2008 the Auditor General plans to take a Report on the 1)audit mandate, 2)methodology and 3)audit plan, as explained in this presentation, to General Committee for approval.**

# Introduction

- Internal Auditing is guided by professional standards and brings a structured and disciplined approach to the audit work. The audit work is governed by an audit methodology and audit mandate developed for the organization's needs.
- The Standards require a formal audit mandate approved by the oversight body for the audit function.
- The audit methodology includes an approach for planning audit activity, project planning, work standards, and reporting processes.
- The Standards require a plan of audit work for a specified time period and that the Plan is approved by the oversight body.
  - Audit work is carried out by conducting audit projects focused on answering questions (objectives) for specific areas (scope).

# What is 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.”<sup>1</sup>

<sup>1</sup> *The Institute of Internal Auditors (IIA) is the acknowledged authority on the internal audit profession. The IIA represents internal auditors in more than 160 countries. Established in 1941, The IIA serves more than 115,000 members around the world. The Institute sets the International Standards for the Professional Practice of Internal Auditing.*

# IIA Standards - overview

- **Attribute**
  - 1000 Purpose, Authority, and Responsibility
  - 1100 Independence and Objectivity
  - 1200 Proficiency and Due Professional Care
  - 1300 Quality Assurance and Improvement Program
- **Performance**
  - 2000 Managing the Internal Audit Activity
  - 2100 Nature of Work
  - 2200 Engagement Planning
  - 2300 Performing the Engagement
  - 2400 Communicating Results
  - 2500 Monitoring Progress
  - 2600 Resolution of Senior Management's Acceptance of Risks
- **Implementation**
  - expand upon the Attribute and Performance Standards, providing the requirements applicable to assurance (A) or consulting (C) activities

# Audit Mandate

- Proposed audit mandate is:
  - Best practice in both public and private sector
  - In accordance with IIA standards
  - Builds on Council resolution and Municipal Act 2001
  - Fuller description than Council resolution but retains all resolution items as passed

# Audit Methodology



## **Audit Mandate<sub>1</sub> speaks to:**

**Purpose** - Assist Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in operations.

**Authority** – Section 223.19 Ontario Municipal Act – reports to Council

**Responsibility** – Develop and deliver a programme of audit work, carry out special assignments as directed by Council, such as forensic investigations

**Scope** – Carry out financial, compliance, performance audits of all programs, activities of all Town departments and affiliated organizations (eg. Library Board, MEC, Varley Foundation)

**Independence** – Appointed by council, independent of management

**Standards of Work** – comply with IIA professional standards



# Audit Methodology

*Audit Mandate*

***Audit Plan***

*Audit Projects*

*Report and  
Follow Up*

## •2010 Planning Standard

The chief audit executive must establish **risk-based plans** to determine the priorities of the internal audit activity, consistent with the organizations goals.

### • Audit Plan

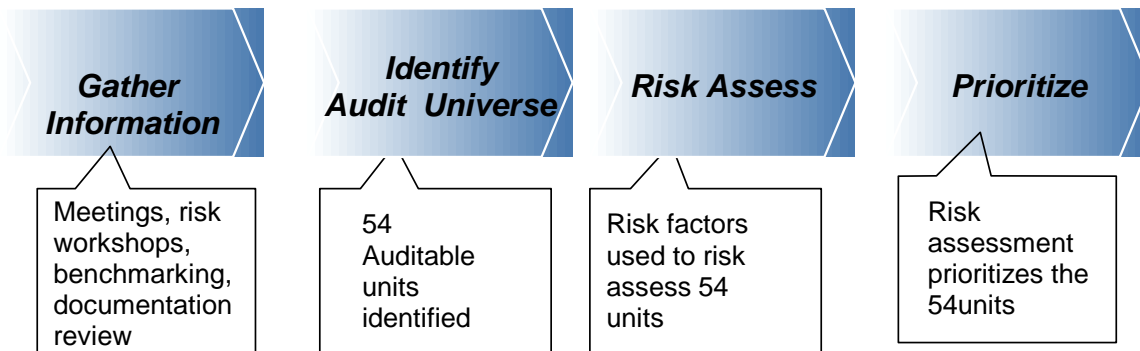
- Is the selection of audit projects to deliver on the mandate
- Is approved by Council through General Committee
- Is **risk** based

**Risk is the uncertainty that surrounds future events and outcomes; it is the possibility of experiencing adverse consequences as a result of choices and actions.**

***Anytime you are faced with doing something , you have risk / uncertainty and the decision how to act (or not act) can mitigate the risk to acceptable levels***

# Audit Methodology

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



# Risk Factors

<b><i>Risk Factor</i></b>	<b><i>Description</i></b>
Impact on Priorities <i>More heavily weighted</i>	Strategic, business, and operational risks
Savings <i>More heavily weighted</i>	Potential for cost savings or efficiencies in operations
Control Maturity	Ad hoc, repeatable, measurable, or best practice
\$ Materiality	Based on Town's operating and capital budget
Complexity	Specialist knowledge, amount and rate of change, outsourcing, technology, staff turnover, regulatory regime
Sensitivity	Reputation, susceptibility to fraud, political and citizen focus



*Prioritize*

## Selection of Audit Projects

- The audit projects were selected based on the assessed risk ranking, combining all risk factors and prioritizing the higher level risk ranked areas.
- Higher level risk ranked areas have the potential to impact council priorities, to have errors, or to have opportunities for improvement that may impact the Town significantly.
- A weighting was applied to the risk factors to align with the audit mandate.
- The Audit Plan targets areas where the Auditor General could add value to the Town, and takes into account current management actions underway.



*Prioritize*

## Selection of Audit Projects

- With audit resources limited to the Auditor General position and no budget for additional resources:
  - Audit projects will focus on a high level scan and then a deep dive into selected areas.
  - Not all medium risk ranked areas will be covered
  - No time is planned to meet council requests
- Council may amend the Plan with a simple majority vote
- The Audit Plan should be reviewed at least annually for continued relevance and adjustments made accordingly.

# Audit Process

## What happens during an audit project?

### Audit Phase

#### Planning

##### Output: Terms of Reference

##### **Audit objectives, scope, criteria, timelines**

- This document is discussed with management.
- Disagreements can be escalated to Council if needed.
- Escalation if management delay impedes the audit and agreed timelines
- Audit criteria and testing program is designed at this time.

#### Review

This phase of the audit assesses design and operation of processes, controls and compliance. Activities include: Testing of transactions, walk throughs, analytical review of information, observation, data analysis, benchmarking.

##### Output: Audit Findings

##### **Condition, cause, criteria, impact, recommendation**

- Deficiencies identified are communicated to management and factually verified.

# Audit Process

What happens during an audit project?

## Reporting

### **Output: Draft Audit Report**

- Closing meeting with management to review draft audit report
- Management provides response with action plans including timeline and accountability.

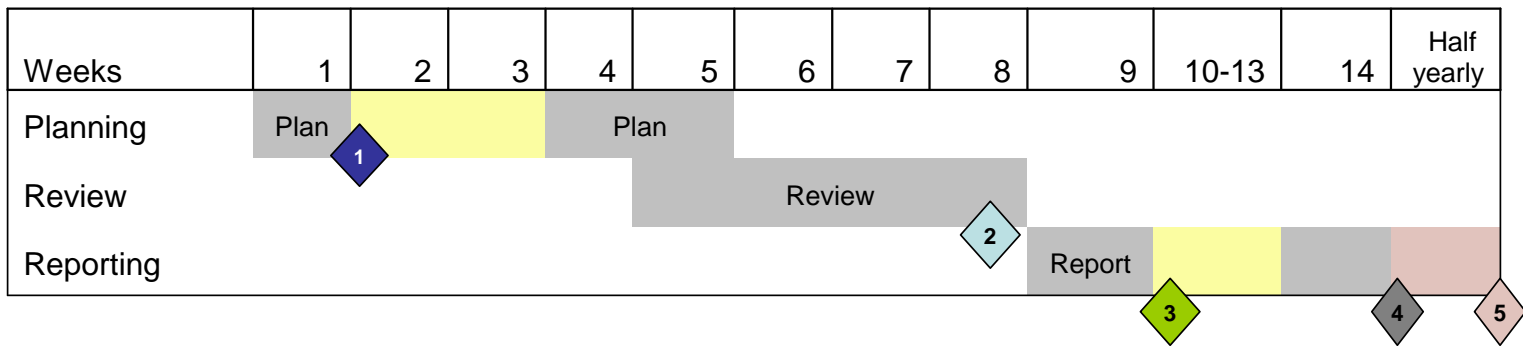
### **Output: Final Audit Report**

- Agreed with management, includes management response and action plans
- Final Report issued to management
- Presented to Council through General Committee Agenda distribution (half yearly) whereupon the Report becomes public
- Management decision not to act or disagreement with audit finding is reported.

## Follow Up

All agreed actions followed up annually. It is expected that management sets reasonable and achievable action completion dates. Late actions are escalated by the Auditor General.

# Typical Audit Project Timeline (when all goes well)



Management review and comment

- 1 Terms of Reference
- 2 Closing Meeting
- 3 Draft Report
- 4 Final Report with management actions
- 5 Report to General Committee; public issuance



# Measuring Auditor General performance

(example)

Key Performance Indicators for Auditor General office	Status	Actual	Target
Customer Satisfaction			
Councillor satisfaction surveys ( <i>% satisfied: good and above</i> )	G	95%	90%
Senior staff satisfaction surveys ( <i>% satisfied: good and above</i> )	A	70%	80%
Financial Performance			
Cost of Audit ( <i>% of Town Operating and Capital Budget</i> )	G	0.04%	0.04%
Audit improves efficiency & effectiveness and controls ( <i>% of actions implemented within agreed timelines</i> ))	R	45%	65%
Operational Excellence			
Delivery of Audit Plan ( <i>% of Plan complete d</i> )	G	90%	80%
Timeliness of reporting ( <i>% of Reports issued within 2 weeks of agreed times in the Terms of Reference</i> )	A	70%	75%
Output of audit adds value ( <i>% of recommendations accepted</i> )	G	95%	85%
Staff Satisfaction			
Continuing professional education credits ear ned by Auditor General	G	50 hours	40 hours

<sup>1</sup> Indicator obtained from the 2002 North American Local Government Audit Association Benchmarking and Best Practice Survey

# Planned Audit Projects 2009- 2011

# Observations influencing the Plan

- **Town wide themes observed during the “gathering information” phase and risk workshops are incorporated into the Audit Plan either as separate themed audit projects or integrated into individual audit projects.**
- **Growth** - evaluate effectiveness and efficiency of a sample of programs giving consideration to the optimal use of technology, partnerships, and staffing models
- **People** -assess staffing models, attendance management and the benefits realized through the use of consultants
- **Technology** –governance, investment and use of part of all audit projects.
- **Procurement** – assess and test the procurement process; test construction project management and contract administration. Post-project review process
- **Performance Indicators** -where during the audits indicators are clearly deficient or improvement opportunities exist that will be identified.
- **Business continuity** - not addressing business continuity and emergency preparedness as the issues are known and should be addressed in the normal course of business.
- **Information Management** – partly addressed in terms of privacy legislation but not document management as the Town is considering funding an information management project.

# Proposed Audit Plan - 2009

**Audit Mandate**

**Audit Plan**

**Audit Projects**

**Report and  
Follow Up**

Year. Reference	Audit Project Title Compliance (C), Performance (P), Financial (F)	Commission Primary / Secondary
2009.1	Procurement Process (C, P, F) Planning to awarding; sole source contracts, vendor database	CS / All
2009.2	Operations Department ((P) Maintenance of parks, roads, signs	CFS
2009.3	Attendance Management (P) Town wide process for absenteeism and overtime	CAO / CFS
2009.4	Construction Contract Project Management (P, F) Project management practices, review of one project	CFS / DS

CS – Corporate Services  
CFS – Community & Fire Services

CAO – Chief Administrative Office  
DS – Development Services

# Proposed Audit Plan - 2010

**Audit Mandate**

**Audit Plan**

**Audit Projects**

**Report and  
Follow Up**

Year. Reference	Audit Project Title Compliance (C), Performance (P), Financial (F)	Commission Primary / Secondary
2010.5	Fleet Services (P, F) Management of vehicle fleet	CFS
2010.6	Use of Consultants (P) Sufficiency of management information, review of selected engagements	CAO / All
2010.7	By-Law enforcement and licensing (P,F) Revenue collection, technology use, departmental interdependencies	CS / All
2010.8	Waterworks (C, P) Contract management, implementation of Quality Management Standard	CFS
2010.9	Information Technology Governance (P) Governance practices, management of IT investments	CS
	<b>Follow up on management action plans</b>	ALL

# Proposed Audit Plan – 2011<sub>1</sub>



Year. Reference	Audit Project Title Compliance (C), Efficiency & Effectiveness (E), Financial (F)	Commission Primary / Secondary
2011.10	<b>Privacy (C)</b> Privacy legislation and information management	CS / All
2011.11	<b>Governance (C, F)</b> Policy compliance (council and staff); expenses (council and senior management)	CAO
2011.12	<b>Development Review Process (P)</b> Implementation of task force actions, technology use and reliability	DS / ALL
	<b>Follow up on management action plans</b>	ALL

<sub>1</sub>For the 5 months remaining on the Auditor General's contract

# Higher risk areas not included in the audit plan

- *Excluded from the audit plan due to resource constraints*
- Procurement cards – used for purchases under \$5,000
- Revenue collection – cashiering system and town wide collection processes
- Insurance risk management
- Business continuity
- Capital budgeting process
- Building permits and inspections
- Payroll
- Investments
- Outsourcing – waste management contract
- Records management
- Fire operations

# Next Steps

- Audit Mandate, Audit Methodology and Audit Plan taken to General Committee on November 17, 2008 for approval.
- Start detailed audit planning November 2008
- Schedule quarterly reporting to General Committee starting February 2009.
- On the Town of Markham website add a section for the Auditor General (under “quick link”) – include mandate and audit plan