

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: December 9, 2013	
SUBJECT/REPORT NO: 2014 Internal Audit Work Plan (AUD13040) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

That Appendix "A" attached to Report AUD13040, respecting the 2014 Internal Audit Work Plan, be approved.

EXECUTIVE SUMMARY

Annually, the Director of Audit Services develops a work plan which outlines the scope of work the Audit Services division intends to conduct during the year. The work plan is based on a previously conducted risk assessment of key services identified in the Service Delivery Review. In addition, inquiries, prior Council direction, consultation with Councillors, senior management and staff, observations made by audit staff during other audits and reviews of audits conducted in other municipalities are also taken into consideration. Various level risk factors and related criteria were considered to prioritize the various projects.

The 2014 Internal Audit Work Plan is a combination of audits in progress or carried forward from 2013 and new audits and other initiatives. It also includes two annual recurring commitments of formal follow up type processes to ensure recommendations contained in previously issued audit reports have been implemented. The Work Plan is attached as Appendix "A" to this Report AUD13040.

Appendix "B" of Report AUD13040 provides a listing of other areas of high or moderately high risk or specific initiatives which are being deferred due to limitations in available staff hours.

The Audit, Finance and Administration Committee approves the proposed Internal Audit Work Plan as part of its mandate.

Alternatives for Consideration – See Page 4.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: The recommendation in this Report has no financial impact beyond the amount provided in the Audit Services division's 2014 budget request.

Staffing: The work plan has been developed based on the current approved complement.

Legal: None

HISTORICAL BACKGROUND (Chronology of events)

According to the current Council approved Internal Audit Charter, the Director of Audit Services is required to prepare an annual work plan for Council approval. The plan describes audit projects and related work proposed for the year. It also provides City Council with an overview of how resources in the Audit Services division will be used during 2014.

POLICY IMPLICATIONS

None

RELEVANT CONSULTATION

Several of the subjects included in the work plan (Appendix “A”) and in the deferred listing (Appendix “B”) result from discussion with and input from individual Councillors, departmental management and staff.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Management is primarily responsible for designing, implementing, monitoring and reporting on controls. However, Council, through the Audit, Finance and Administration Committee, is ultimately responsible for ensuring management fulfils these responsibilities. Audit Services assists Council and management in meeting their internal control responsibilities by carrying out audits with the goal of enhancing internal control and operational efficiency and effectiveness of City programs and services. The City’s capacity to respond to recommendations arising from any audits and make improvements to its management practices is where the real benefit to the taxpayers will come.

Reporting the audit results and management action plans to the Committee is an important step in the Committee’s role for the effective oversight of the control environment and culture and promotes accountability and transparency with City Council.

Follow up of audit recommendations is also important to ensure that management has taken appropriate action to implement recommendations identified in previous audit reports and improvements have been realized as a result. Auditing standards require an audit follow up process to determine the status of outstanding audit recommendations. A portion of the available time is set aside to conduct the initial follow up of audit reports issued within the last 12-18 months. In addition, an annual follow up process updates the status of all recommendations made since 2005 and provides management and Council with a snapshot of the progress of implementation.

Due to the nature of audit work, the current environment and special projects and investigations that arise without much notice, it is important for the work of the Audit Services division to remain fairly flexible in order to provide the most timely service to Council and management. At the same time, there should be a somewhat structured work plan to focus scarce resources on major areas of concern and risk and balance coverage across the types of services delivered. The work plan provides a basis for the involvement of clients and stakeholders in the audit planning process and serves as a standard against which to measure the performance of Audit Services.

Determining which areas to audit and the appropriate allocation of Audit resources is essential in maximizing the value of an effective audit process. In order to assess the relative importance of potential audit areas and to objectively develop an audit work plan, Internal Audit conducted a corporate risk assessment of the City's services in 2012, the results of which were and will be used for five years or until the next full risk assessment is carried out. This significant and resource intensive exercise was a quantitative approach to help in prioritizing potential audit projects which pose high risks, exposures and liabilities to the City.

In determining the number of projects included in the annual work plan, the hours of staff time available were allocated to the estimated time required to conduct each audit/review. As experience has shown that, throughout the year, unanticipated requests for audit resources arise from Council and management, the work plan sets aside approximately 10% of available staff time to meet such requests. This allotment may also be used to conduct special investigations, as warranted, as the same pool of staff that carry out the audits in the work plan would carry out such work.

Should the special requests and investigations exceed the level estimated for the work plan, it will be necessary to defer projects included in the work plan. Any deferrals will be reported to the Committee.

The extent of completion of the audit projects will be dependent on the approval of Internal Audit's budget as submitted, the number of requests by City Council and management, the level of special investigations and other issues which may emerge during the year.

Internal Audit believes that the proposed work plan provides a balance of audit work that, once completed, will result in improving the overall operations of the City by assessing potential risk, strengthening management controls, improving accountability and helping the Audit, Finance and Administration Committee with its governance and internal control oversight role.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The Committee can decide to add/delete/replace projects from the proposed work plan, taking into consideration the resource limitations. Any significant changes resulting in increased time commitments will require a reallocation of staff resources. In addition, changes which require the substitution of a planned audit project with a new project may not address areas of higher risk.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD13040

Appendix "B" to Report AUD13040

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APPENDIX "A"
CITY OF HAMILTON
PROPOSED 2014 INTERNAL AUDIT WORK PLAN PROJECTS

1. AUDITS IN PROGRESS OR CARRIED FORWARD FROM 2013

The following audits are in progress and should be completed by the end of the first quarter of 2014:

- Continuous Auditing Program
- Traffic Operations
- Homes for the Aged
- Network Security and Access
- Investments

The following audits/reviews were included in the 2013 Work Plan. Due to resourcing issues, they will be carried over and completed in 2014.

Audit Project	Project Description
Information Technology – Review of Asset Management (Hardware)	The rollout of desktop and mobile computers and servers as well as the related administrative and management processes will be reviewed and assessed as their ability to ensure sustainability of assets and provide adequate service to users.
Animal Services	The audit will review the administrative practices with particular emphasis on the process relating to animal licences and control over the collection of revenues.
Community Services – Employment Services	The City's Community Services provides employment supports under the Ontario Works program. The facilitation or provision of services including training and skills development, case management and job development for eligible individuals in accordance with the Ontario Works Act and Directives will be reviewed.

2. ANNUAL RESPONSIBILITIES

Audit Project	Project Description
Follow Up of Outstanding Recommendations from Previous Audit Reports	This work relates to the verification of the status of the implementation of audit recommendations from approximately 15 audit reports issued in the prior 12-18 months. The <i>International Standards for the Professional Practice of Internal Auditing</i> requires the follow up of recommendations made.
Annual Follow Up Process	In order to ensure that the Audit, Finance and Administration Committee has adequate information to fulfill its responsibilities for the oversight of governance and control, the results of a follow up system of yearly updating on the status of uncompleted recommendations (after the regular follow up conducted as above) are reported annually to the Committee.

3. NEW PROJECTS

Audit Project	Project Description
Absenteeism	This review will examine, document and analyze absenteeism in the City with particular emphasis on the Attendance Support and Management Program (ASMP) and short-term disability provisions.
Records Management	With the move of Records off-site storage and the implementation of new procedures to manage the storage of over 19,000 boxes of corporate documents, security and reliability of retrieval are important aspects of the service provided.
Roster Requirements	Proposals for roster candidates for professional consultants contain specific rules and requirements such as fixed pricing within the term, permitted additional charges and invoicing details. As the current roster term is half way through and the next Request for Roster Candidates will be developed in 2014, any issues that need addressing in this regard should be identified.
Building Inspections	A review of the administrative and operational controls relating to the City's building inspection process will be carried out.

3. NEW PROJECTS (Continued)

Audit Project	Project Description
Recreation – Scheduling & Payroll	A high level review of processes for reviewing and processing timesheets, providing approvals and justifying prior period adjustments will be conducted. The efficiency and economy of the scheduling methods utilized will also be assessed.
Continuous Auditing	As a work in progress project from 2013, a methodology for using data extraction and analysis to identify unusual transactions from the financial system was investigated. This general process will be applied to a specific subject area to develop monitoring reports and promote regular oversight and investigation.
Long Term Debt	This audit will review the processes for the issuance, redemption, interest payment and recordkeeping for long term debt. Compliance with legislated restrictions as well as corporate policies will be assessed.
Fuel Usage	Fuel costs represent one of the most significant expenses in running the City's fleet vehicles. The effectiveness of controls and oversight for fuel usage as well as related administrative and operational processes will be reviewed.
Status Update on Audit Services Quality Assurance Exercise	The results of an independent verification of quality assurance of the Audit function were reported to Committee and Council in May, 2013. Several recommendations regarding best practices were made by the consultant. The implementation status of these recommendations will be verified, documented and reported to Committee.

APPENDIX "B"
CITY OF HAMILTON – AUDIT SERVICES
PROPOSED PROJECTS FOR SUBSEQUENT YEARS

Projects for the 2014 Internal Audit work plan were prioritized mainly based on a risk assessment conducted in 2012. However, there are many subject areas which should be addressed but, due to the limitations in available staff hours, could not be accommodated in the 2014 work plan. These projects will be re-evaluated annually to ensure continued relevance and priority and will be considered in subsequent years. Should 2014 scheduling or resources allow, the projects noted below would be considered for possible completion in the current year.

- Information Technology Disaster Recovery Planning
- Accounts Payable
- Accounts Receivable
- Payroll Processes
- Asset Management
- Major Capital Projects
- Public Health Individual Programs – Compliance with Regulations and Policies, Internal and Financial Controls and Program Results (Not Previously Audited)
- Water Supply and Distribution
- Social Assistance Payments (OW, Support Services, Discretionary Benefits)
- EMS Scheduling and Payroll Processes
- Wastewater Collection and Treatment
- Licensing
- By-law Enforcement
- Accessibility for Ontarians with Disabilities Act (AODA) Compliance
- Child Care Subsidies
- Recreation Services
- Property Taxes
- Succession Planning
- Use of Consultants
- Security and Safety at City Facilities
- Privacy and Protection of Customer/Client Information
- Computer Applications Used in City Operations (e.g. SCADA, Hansen, Amanda, etc.)