COMMITTEE AGENDA

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DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

CONFIRMATION OF MINUTES – None

PRESENTATIONS (Items with no accompanying report)

None

CONSENT AGENDA

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Governance Committee Consent Agenda will be approved in one resolution.

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
GOV-20 Audit-Review – New Rating System and Methodology			

Resolution to adopt the balance of the Governance Committee Consent Agenda.

ITEMS EXTRACTED FROM CONSENT AGENDA
Once extracted items are identified, they will be dealt with in the following order:
1)   delegations (may include presentations)
2)   staff presentations only
3)   all others.

NEXT MEETING – Tuesday November 13, 2012

October 16, 2012

Members of the Governance Committee.

SUMMARY OF REPORTS:

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item.   The item will be extracted and dealt with immediately. The balance of the Governance Committee Consent Agenda will be approved in one resolution.

A   Reports from Administrative Staff

REPORT	DIRECTION
GOV-2012 A.20) **AUDIT-REVIEW – NEW RATING SYSTEM AND METHODOLOGY** THAT the proposed new rating system and methodology for future audit-reviews be approved in principle; AND THAT staff be directed to prepare a complete list of ranked and rated services with recommendations for selected audits for 2013 by the end of November 2012, at which time they will be presented to Committee for approval.	Approve

attach.

COMMITTEE REPORT

TO	**Governance Committee**
SERVICE AREA	CAO - Administration
DATE	October 9, 2012
SUBJECT	**Audit-Review – New Rating System and Methodology**
REPORT NUMBER	CAO-A-1202

SUMMARY

Purpose of Report:
To provide the Committee with a report outlining proposed changes to the selection process for future audits/reviews. The new methodology is proposed "in principle" with additional input and refinement from Council and management through a workshop on October 16, 2012 and meetings with management over the next several weeks.

Committee Action:
To recommend report CAO-A-1202 to Council approval.

RECOMMENDATION
That the proposed new rating system and methodology for future audits-reviews be approved in principle, and;

That staff be directed to prepare a complete list of ranked and rated services with recommendations for selected audits for 2013 by the end of November 2012, at which time they will be presented to Committee for approval**.**

BACKGROUND
In Committee Report CAO-A-1201, "Status Report – Service and Operational Reviews", staff defined a number of issues and barriers to the completion of selected service and operational reviews for 2012. Lessons learned from this pilot project were also presented in the report.

As part of the City's new Internal Audit function, a new approach to audits-reviews has been proposed applying best practice audit methodology and standards established by the Institute of Internal Auditors (I.I.A.), the governing body for the audit profession. The principles or framework for this approach are outlined in this report.

REPORT

In order to benefit from the lessons learned in phase one of the service and operational review project and to improve the process for all future reviews, staff have developed an new approach that builds on experience and addresses the issues identified in the previous review process.

Using a risk-based audit approach is considered a universal best practice and this methodology can be applied to all forms of internal audits or reviews. The concept of "service review" is essentially an audit and the terms "review" and "audit" are interchangeable. Some confusion arises when using the term "service review" as this is *not* an audit term but rather a phrase coined by government organizations to vaguely describe a process of service evaluation.   Further compounding the confusion is the fact that the term "operational review" is *actually* an official audit term used to describe a specific type of audit.
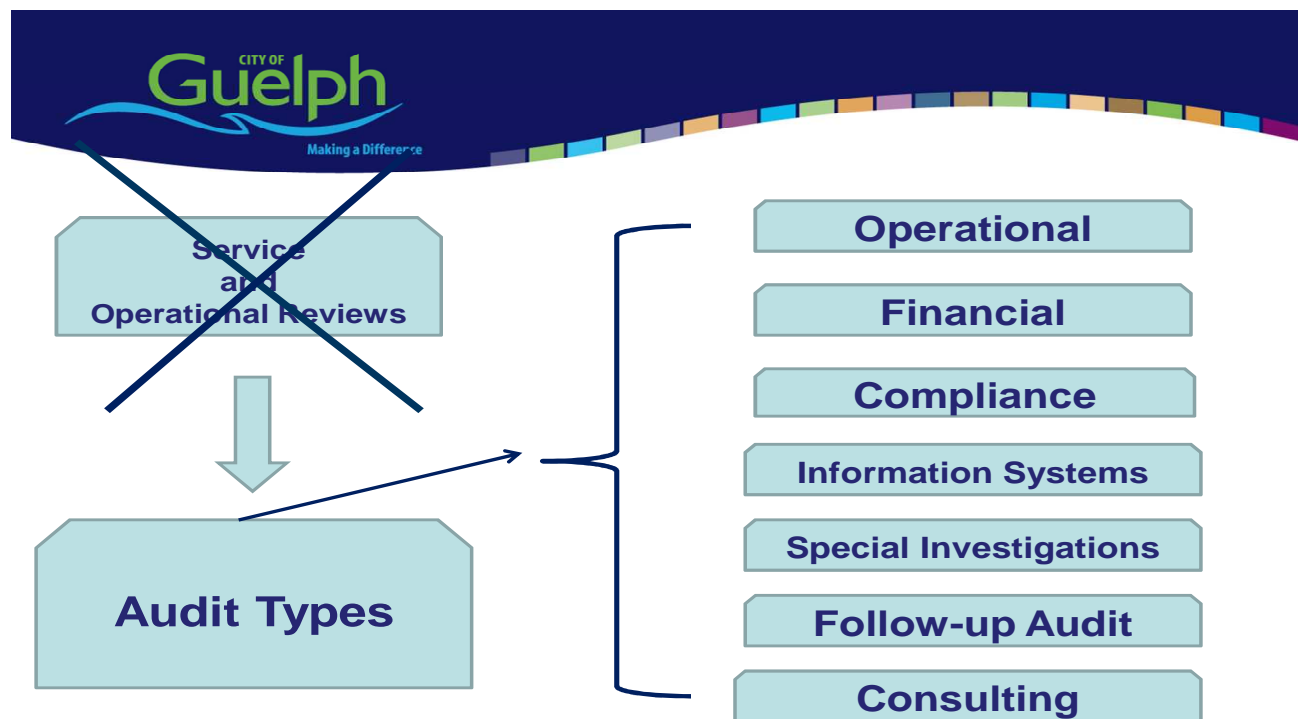
Types of Audits or Reviews that may be conducted by Internal Audit [5]

In keeping with the use of standard audit terminology, the following types of audits may be performed by an auditor:

Operational Audits – (a.k.a. Performance Audit, Value for Money Audit, Management Audit)
Operational audits objectively and systematically examine the City's programs, functions and activities. They may include analyses and recommendations with

respect to continuing or discontinuing the service. These audits include measuring and assessing the ongoing performance and operation of management while focusing on the business unit's key objectives. Operational audit recommendations encourage the use of best practices while promoting public accountability, efficiency, and effectiveness. The scope of these audits can include some or all of - efficiency, effectiveness, accountability relationships, protection of assets, compliance with legislative and corporate policies, culture, organizational structure, staffing levels, technology, or span of control evaluation. Operational audits are comprehensive, end-to-end audits requiring significant resources to complete.

Financial Audits
Financial audits include the review of financial processes. Cash control, accounts payable, accounts receivable, payroll, inventory controls, and investment compliance are all examples of areas that may be reviewed in a financial audit. Financial audits are designed to provide Council and departmental management with the assurance that adequate and effective financial controls are in place in order to safeguard City assets. Financial audits may be performed by the Internal Auditor in conjunction with the External Auditors. Control reviews or audits are also within the scope of financial audits.

Compliance Audits
Compliance audits are smaller in scope than operational audits and are designed to review and evaluate compliance with established policies and procedures as well as any relevant statutory and/or legal requirements.

Information System Audits
Information System audits provide assurance that the City's information technology infrastructure and computer applications contain adequate controls and security to safeguard assets and mitigate risk. These audits provide assessments on overall security, controls, business continuity, and disaster recovery plans after system implementation. Control advice may also be provided during major system implementations to ensure controls and security issues are addressed and considered. Post implementation audits may also be conducted by the auditor once a new computer application has migrated to production.

Fraud, Theft, or Special Investigations (a.k.a. forensic accounting or auditing)
Fraud Investigations are audits that usually involve an examination of specific components of an operation or a program. These audits may result from requests from Audit Committee, Council, CAO, Managers or from information received from employees, vendors or citizens. Other types of investigations may include reports of inappropriate conduct or other activities by a City employee.

Follow-up Audits
Standard 2500 of the Professional Practice of Internal Auditing states that one of the primary responsibilities of professional auditors is to ensure that proposed management action plans have been effectively implemented. Thus, the primary purpose of a follow-up audit is to provide assurance that the recommendations made in previous audit reports have been addressed and implemented.

Consulting Services
Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the client and are intended to add value by improving governance, risk management, and control processes. Some examples include business process improvement, process mapping, advice and counsel, facilitation and training.

In this context, ongoing reviews of City services, programs, and business activities are all considered "Operational Audits" wherein the scope of the review can be limited to a narrow focus or expanded to include all elements of the business unit.

The process of selecting *which services, programs, or activities to review* is most effective when viewed through a "risk-based" audit methodology.

Staff propose to implement a rating system which would prioritize audits using a scoring system based on the criteria illustrated in the following chart:

Audit Prioritization Model

Factor	Suggested Weight	Range of Scores					
Known risks	40 - 60%	Rating	1	2	3	4	5
		Total risk score	0-4	5-8	9-12	13-16	17-20
Budget	20 - 40%	Rating	1	2	3	4	5
		Budget	0 - 50K	50K - 250K	250 K - 500 K	500K - 1M	1M+
Date of last review	10 - 20%	Rating	1	2	3	4	5
		Date of last review	< 1 year	1-3 years	3-5 years	5+ years	Never
Potential Savings Opportunities	+ / -5%	Rating	0				5

The rationale for this scoring system is as follows:

Known Risks: The primary factor in this model should be the degree of risk that is inherent in the service or business activity. This insures that priority is not placed on low risk services and that there is adequate oversight of high risk activities.

Budget: The amount of budget expended on the service should be a heavily weighted factor to insure that those services which have the greatest impact on the organization's financial condition are given higher priority.

Date of last review: This insures we are not repeating reviews that were done recently. It carries less scoring weight but still ensures that we do not overlook high risk services that warrant more frequent reviews.

Potential Savings Opportunities: This is an optional factor as well. It acknowledges that some business units have greater potential savings opportunities and prioritizes them for review.

Once all services are rated using this system, they can be prioritized by their total score. Staff will then recommend the list of business units, programs or activities that should be reviewed for the next year as well as suggesting the type of audit and scope that would be most appropriate for each area.

It is important to note that the services selected in 2012 for review may not be identified as priorities using the new rating system and therefore, may not be recommended for review in 2013.

Should the proposed rating system be approved, next steps will be as follows:

1. With management input, determine level of business unit categorization (Auditable Entities). Staff recommends taking a higher level approach to service definition that links to the current budget system and provides for relevant financial analysis. A list of "sub-services" could be developed under these broader categories to assist with review selection within a business unit. An audit may be conducted on any service or sub-service and is not precluded by using broader categories of auditable entities.
   To be completed by October 23, 2012.

2. Present "Auditable Entities" categorization to Executive Team for final approval.
   To be completed by October 31, 2012

3. Gather data related to each service – budget, risk score, date of last review, potential savings opportunities.
   To be completed by November 15, 2012.

4. Synthesize data and create draft ratings and prioritization list of ranked entities for Committee approval. Indicate what type of audit-review might be appropriate and whether external consultants will be required for specialized or highly technical services.
<u>To be completed by November 15, 2012.</u>

5. Recommend, with Council and management input, the number of reviews that will be completed in the remaining term of Council, overlaying these with the capacity of internal audit, available staff support and options for outsourcing specific reviews.
<u>To be completed by November 30, 2012.</u>

6. Draft multi-year work plan, to be revisited and assessed annually for modifications or shifting priorities and present to Committee for approval.
<u>To be completed by December 15, 2012.</u>

As further information and to provide the Committee of an example of how services are currently grouped by Finance in the existing Budget system, **Appendix "A"** is the proposed categorization of "Auditable Entities" taken directly from the budget system. Refining the criteria for this proposed rating system such as factors and weighting will be further informed through discussions with management of each business area as well as discussion at a Council Training Session on October 16th, 2012.

CORPORATE STRATEGIC PLAN
Organizational Excellence – 1.3 Build robust structures and frameworks aligned to strategy.
Innovation in Local Government - 2.3 Ensure accountability, transparency and engagement.

FINANCIAL IMPLICATIONS
A budget expansion request will be presented to Council for the purpose of creating an operating line for future audits that may require third-party expertise and / or public consultation.
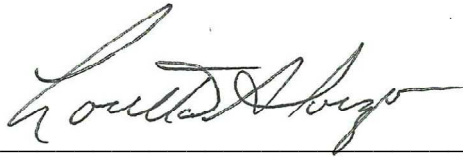
DEPARTMENTAL CONSULTATION
The Executive Team has been consulted in the development of this report.

COMMUNICATIONS
Approved changes will require full communication plan through Corporate Communications to reach all employees.

ATTACHMENTS
Appendix "A" –List of Proposed "Auditable Entities" Categorized by Budget System

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Appendix "A"
Governance Committee Report # CAO-A-1202
Proposed List of "AUDITABLE ENTITIES" or "Audit Universe"

Service Count		2012 BUDGET
1	CAO Administration	564,390
2	11 Mayor & Council	865,958
3	Strategic Planning & Corporate Initiatives	189,940
4	Operations and Transit Administration	405,540
5	Transit Administration	642,940
6	Planning & Scheduling	280,290
7	Transit Operations	17,144,470
8	Transit Facility	780,850
9	Transit Terminal	469,600
10	Conventional Transit Revenue	-10,149,200
11	Mobility - Transportation	966,550
12	Mobility - Prov. Subsidized Ops.	76,810
13	Mobility - Dispatching	146,550
14	Mobility Transit Revenue	-72,400
15	By-Law Compliance and Security	1,333,232
16	Public Works Administration	3,014,544
17	Roads & Right of Way	6,593,858
18	Traffic	2,338,560
19	Parking	(885,736)
20	Fleet Maintenance	27,100
21	Forestry Services	1,000,350
22	Fire	20,828,670
23	Land Ambulance	3,855,713
24	Planning, Building, Engineering, Environment Administration	344,000
25	Planning	1,749,860
26	Building	955,622
27	Engineering	819,965
28	Solid Waste Admin & Program Devt	(4,870,529)
29	Residential Waste Collection	4,314,154
30	Plant Operations & Maintenance	5,108,350
31	Transfer Station Operations	249,789
32	Haul / Dispose Contract	3,129,700
33	H.H.W. Operations	(49,440)
34	H.H.W. Building Maintenance	-
35	W-D Public Drop Off Operations	1,661,100
36	W-D Scale Operation / Maintenance	207,400

37	W-D Grounds Maintenance	48,900
38	W-D Winter Operations	6,500
39	CSS Administration	972,357
40	Victoria Road Rec Centre	716,519
41	Centennial	298,528
42	Exhibition	(9,542)
43	West End Community Centre	694,330
44	Evergreen Community Centre	386,988
45	Neighbourhood Groups	305,100
46	Local Immagration Partnership	900
47	Disability Services	112,320
48	Program Quality and Evaluation	91,320
49	Program Development and Admin	-
50	Youth Services	84,830
51	Inclusion Services	136,276
52	Community Development	247,815
53	Affordable Bus Pass	243,350
54	Youth Shelter	482,700
55	River Run Centre	494,106
56	Museum	822,677
57	Cultural Development	99,630
58	Market Square Programs	69,800
59	Sleeman Centre	239,443
60	Tourism	372,128
61	Corporate Building Maintenance	2,677,419
62	Business Services	1,287,440
63	Parks	4,547,654
64	HR Administration	2,202,513
65	Human Resources	773,490
66	Legal Services	843,580
67	Information Technology	3,550,325
68	Clerk Services	744,339
69	Corporate Communications	546,713
70	Library	7,781,370
71	Guelph Municipal Holding Company	-
72	General Administration	293,700
73	Insurance	383,201
74	Taxes - Written Off	1,012,500
75	Property Tax Rebates	681,000
76	Property Assessment (MPAC)	1,605,450
77	School Safety Patrol - Administration	75,800
78	Emergency	248,300

79	General Revenues	(190,996,044)
80	Grants	1,183,260
81	Finance Administration	317,120
82	Financial Services	344,755
83	Taxation and Revenue	555,869
84	Tax Certificate Revenue	-
85	Budget Services Division	1,008,185
86	Purchasing / Procurement	332,774
87	Risk Management	101,400
88	Downtown Renewal	474,224
89	Community Energy	333,902
90	Economic Development	783,602
91	Water	-
92	Wastewater	-
93	Court Services	-