Vision: *The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.*

Agenda

Audit Committee

meeting to be held

Wednesday, September 7th, 2011

at 6:00 pm

Council Chamber, Tom Davies Square

AUDIT COMMITTEE AGENDA

For the 9th Audit Committee Meeting
to be held on **Wednesday, September 7, 2011**
Council Chamber, Tom Davies Square at **6:00 pm**

COUNCILLOR CLAUDE BERTHIAUME, CHAIR

Evelyn Dutrisac, Vice-Chair

(Please ensure that cell phones and pagers are turned off)

The Council Chamber of **Tom Davies Square** is accessible to persons with disabilities. Please speak to the City Clerk prior to the meeting if you require a hearing amplification device. Persons requiring assistance are requested to contact the City Clerks Office at least 24 hours in advance of the meeting if special arrangements are required. Please call (705) 674-4455, extension 2471. Telecommunications Device for the Deaf (TTY) (705) 688-3919. Copies of Agendas can be viewed at www.greatersudbury.ca/agendas/.

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

PRESENTATIONS

1. Report dated August 30, 2011 from the Auditor General regarding Audit Followup Status Report - Shift Trading. **4 - 10**
   (ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)

   - Brian Bigger, Auditor General

   (This report informs the Audit Committee as to the status of outstanding audit recommendations for the Transit Shift Trading Audit.)

2. Introduction To Reporting On Internal Controls **11 - 33**
   (ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)

   - Carolyn Jodouin, Senior Auditor

   (The presentation will provide an overview of the audit process including accountability for the quality of controls and transparency of the activities of management.)

3. The Audit Process and Government Auditing Standards **34 - 38**
   (ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)

   - Brian Bigger, Auditor General
   - Carolyn Jodouin, Senior Auditor

   (An information session for the current Audit Committee members, reviewing the audit process that is provided to management at the start of each audit. This process has also been reviewed with previous Audit Committees in the past.)

Adjournment (Resolution Prepared)

CAROLINE HALLSWORTH, EXECUTIVE DIRECTOR/CITY CLERK

LIZ COLLIN, COUNCIL SECRETARY

Presented To:	Audit Committee
Presented:	Wednesday, Sep 07, 2011
Report Date	Tuesday, Aug 30, 2011
Type:	Presentations

For Information Only

Audit Followup Status Report - Shift Trading

Recommendation

(Report attached)

Signed By

Auditor General
Brian Bigger
Auditor General
Digitally Signed Aug 30, 11

2011

AUDITOR GENERAL’S STATUS REPORT ON OUTSTANDING AUDIT RECOMMENDATIONS FOR THE AUDIT OF SHIFT TRANSFERS – CONTROLS OVER DISTRIBUTION AND COMPENSATION FOR WORK

Greater|Grand Sudbury
Office of the Auditor General
Bureau du vérificateur général

July 27, 2011 #2011STATUS03

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Office of the Auditor General
Bureau du vérificateur général

July 27, 2011

To: Audit Committee

Subject: Auditor General's Status Report on Outstanding Audit Recommendations for The Audit of Shift Transfers – Controls over Distribution and Compensation for Work – #2011STATUS03

The Auditor General's Office conducted a follow-up review on the implementation status of management's actions in response to recommendations contained in the audit report for the Audit of Shift Transfers – Controls over Distribution and Compensation for Work (#2010FIN08) dated October 26, 2010. This report contains the follow-up results on the status of the recommendations included in the report.

Management has made significant progress on implementing all outstanding audit recommendations. By implementing the recommendations, management has enhanced controls over the shift exchange process and reduced a number of risks to the City.

We conducted this follow-up audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We wish to express our appreciation for the cooperation and assistance provided to the audit team by all staff involved in this process.

Sincerely,

Brian Bigger
Auditor General

Audit Staff: Carolyn Jodouin, Senior Auditor

CC: Tim Beadman, Chief of Emergency Services
Jamie Canapini, City Solicitor
Greg Clausen, General Manager Infrastructure Services
Kevin Fowke, Director, Human Resources/Organization Development
Lorella Hayes, Chief Financial Officer/ City Treasurer
Marc Leduc, Fire Chief
Doug Nadorozny, CAO
Roger Sauve, Director of Transit Services

TABLE OF CONTENTS

BACKGROUND

The Auditor General's Office conducts follow-up audits to ensure that management has taken action to implement the action plans they provided, in response to recommendations contained in audit reports. We have reviewed the status of the outstanding audit recommendations previously made by the Auditor General to management.

We conducted this follow-up audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PROCESS

The follow-up process requires that management provide the Auditor General with a response on the status of each recommendation contained in previously issued audit reports. For those recommendations noted as implemented by management, audit staff conducted fieldwork to verify the accuracy of management assertions.

Table 1 represents the results of our follow-up on audit recommendations for the audit of Shift Transfers – Controls Over Distribution and Compensation For Work (#2010FIN08).

Table 1: Follow-up Results

Report Title and Date	Total No. of Recommendations Reviewed	Results of Current Review		
		Fully Implemented	**Not Fully Implemented**	**No Longer Relevant/ Management Decision Not To Implement**
Audit of Shift Transfers – Controls Over Distribution and Compensation For Work October 26, 2010	8	8	0	0

Since all recommendations are reported as being implemented, all follow-up work is complete and there will be no further report to Council in the future.

CONCLUSION

Management has made significant progress by implementing all outstanding recommendations. By implementing the recommendations, management has enhanced controls over the shift exchange process and reduced a number of risks to the City.

Presented To:	Audit Committee
Presented:	Wednesday, Sep 07, 2011
Report Date	Tuesday, Aug 30, 2011
Type:	Presentations

For Information Only

Introduction To Reporting On Internal Controls

Recommendation

(Presentation attached)

Signed By

Auditor General
Brian Bigger
Auditor General
Digitally Signed Aug 30, 11

Introduction To Reporting On Internal Controls

By: Carolyn Jodouin, Senior Auditor
On: September 7, 2011
To: Audit Committee

What is a Control?

- A control is any action taken by management, the board, and other parties to manage risk and increase the likelihood that established mission, objectives and goals will be achieved.
- A control serves as a defense in safeguarding assets and in preventing and detecting errors, fraud, non compliance with provisions of laws, regulations, contracts, or grant agreements.
- It helps program managers achieve desired results through effective stewardship of public resources

The Control Process

- Control processes - are the policies, procedures, and activities that are part of a control framework
- Risk management - is a process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's mission, goals and objectives.

Who Relies on Controls?

- Management
  - They set the "tone at the top" that affects integrity and ethics and other factors of a positive control environment
  - Management designs and implements internal control procedures
  - Monitor the effectiveness of the internal control system

Who Relies on Controls

- Council and Public need to know whether:
  - Management use their authority and manage government resources properly and in compliance with laws and regulations
  - Government programs are achieving their objectives and desired outcomes
  - Government services are provided effectively, efficiently, economically, ethically and equitably

Who Relies on Controls?

- Auditors
  - External and Internal auditors assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control
  - Weaknesses in control relate directly to the amount of audit verification the Auditors must do.
  - The amount of verification directly affects the cost of audits

Understanding Internal Controls

- Auditors obtain an understanding of internal controls through:
  - Inquiries
  - Observations
  - Inspection of documents and records
  - Review of other auditor's reports
  - Direct testing

Types of Controls

- Two types of controls:
  - Preventative
    - Designed to discourage errors or prevent irregularities from occurring. They are proactive controls that help prevent a loss. *Examples: Separation of duties, proper authorization, adequate documentation, and physical control over assets.*
  - Detective
    - Designed to find errors or irregularities after they have occurred. *Examples: Reviews, analyses, variance analyses, reconciliations, physical inventories, and audits.*

Who is responsible for controls?

- Everyone plays a part in the internal control system.
- Ultimately, it is management's responsibility to ensure that controls are in place. Each area of operation, must ensure that internal controls are established, properly documented, and maintained.

Who is responsible for controls?

- Every employee has some responsibility for making this internal control system function. Therefore, all employees need to be aware of the concept and purpose of internal controls.

- Auditor General's role is to assist management in their oversight and operating responsibilities through independent audits and consultations designed to evaluate and promote the systems of internal control.

Deficiency in Controls

- The audit can reveal a deficiency in either the
  - Design of the control – *Example: Invoices do not require management approval before payment*
  - Operation of the control – *Example: Process requires management approval before payment, yet payments are being processed without management approval*

Why can controls break down?

- No matter how well internal controls are designed, they can only provide **reasonable assurance** that objectives have been achieved.

Why can controls break down?

- Some limitations inherent in internal control system:
  - Judgment - The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand.
  - Breakdowns - Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes.
  - Management override - High level personnel may be able to override prescribed policies and procedures for personal gain or advantage.
  - Collusion - Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.

Conducting the Audit – A Review of The Control Framework

- Audit is conducted based on the audit plan
- Auditor obtains sufficient and relevant information and audit evidence to support audit findings and recommendations
- Management is kept informed of the progress of the audit based on their preferences expressed during the planning meetings

Audit Closing Meeting

- Audit closing meeting is done at the completion of fieldwork
- Audit closing meeting is held with client management and may include the department's General Manager, Director and/or Manager
- The audit findings are provided to management prior to the Audit closing meeting.

Audit Closing Meeting

- All findings and recommendations are discussed with management (even if they have been discussed previously)

- Discuss with management what Audit is looking for in a management response and timeline for responses

Audit Findings and Recommendations

- Findings and recommendations are recorded in the Audit Findings template and used as a discussion tool at the closing meeting.
- Any changes or amendments as discussed during the closing meeting are recorded
- Template serves as the framework for the creation of the draft audit report

Audit Report

- Audit report is drafted and sent to management for review
- Ask that management provide written responses to audit recommendations within 2 weeks (10 working days)
- Review with management what audit is looking for in a response

Management Responses

- The template for management responses is sent to management along with Draft Audit Report

- Ask management to indicate whether they agree or disagree
  - If they agree, indicate action plan and time frame
  - If they disagree, include management comments as to why they disagree

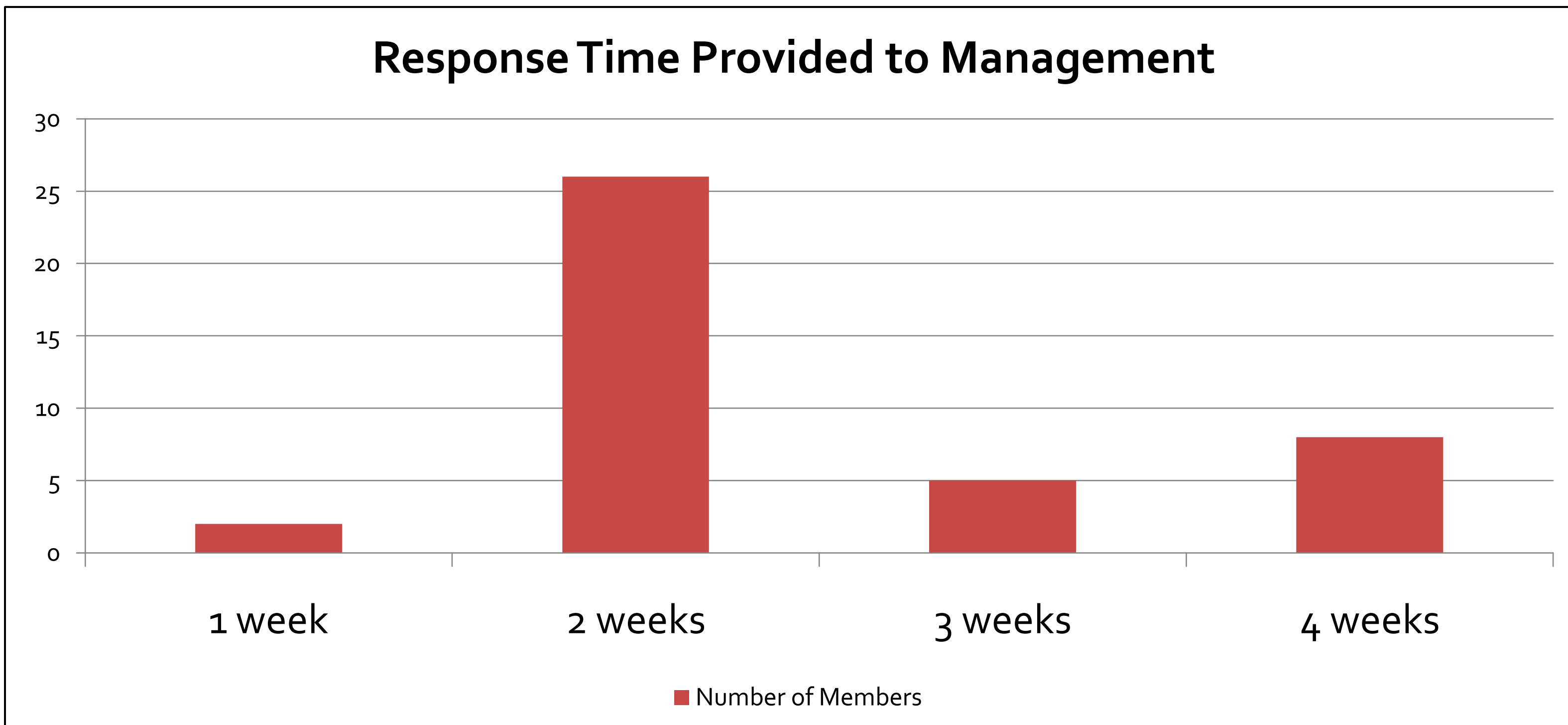
Management Responses

- According to GAS 7.37 – If the auditors disagree with management comments, they should explain in the report their reasons for disagreement

- According to GAS 7.38 – If management refuses or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments

Other Municipalities

- ALGA performed a survey of its members and asked what response time is given to management for them to respond to audit recommendations



Conclusion and Questions

- Management input is required throughout the audit process – from planning to drafting recommendations
- It is important that management responds to draft audit report in a timely fashion
- Proper management responses are imperative so that Audit can perform follow-up and report back to Council

For Information Only

The Audit Process and Government Auditing Standards

Presented To:	Audit Committee
Presented:	Wednesday, Sep 07, 2011
Report Date	Thursday, Sep 01, 2011
Type:	Presentations

Recommendation

(Presentation attached)

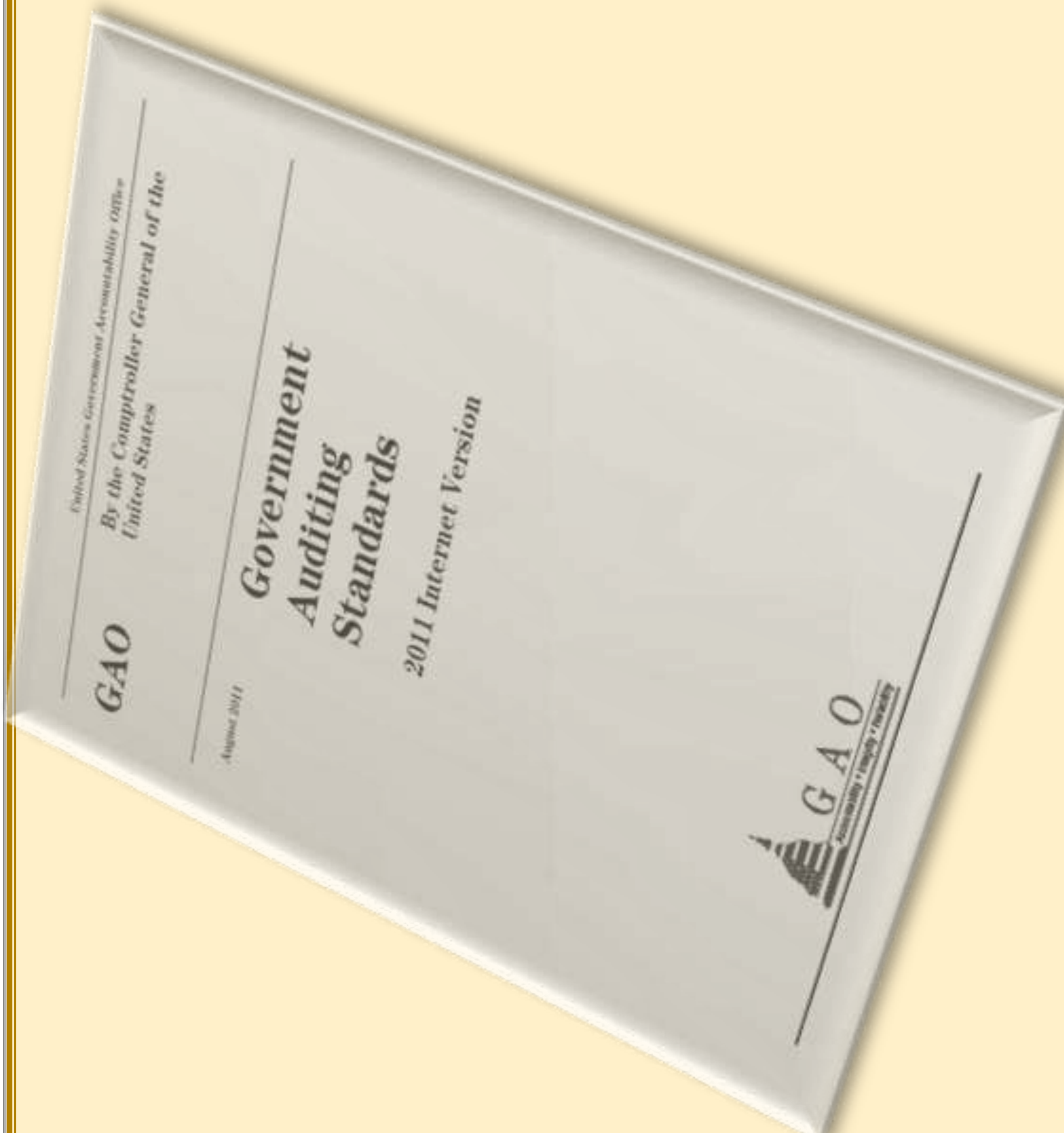
Signed By

Auditor General
Brian Bigger
Auditor General
Digitally Signed Sep 1, 11

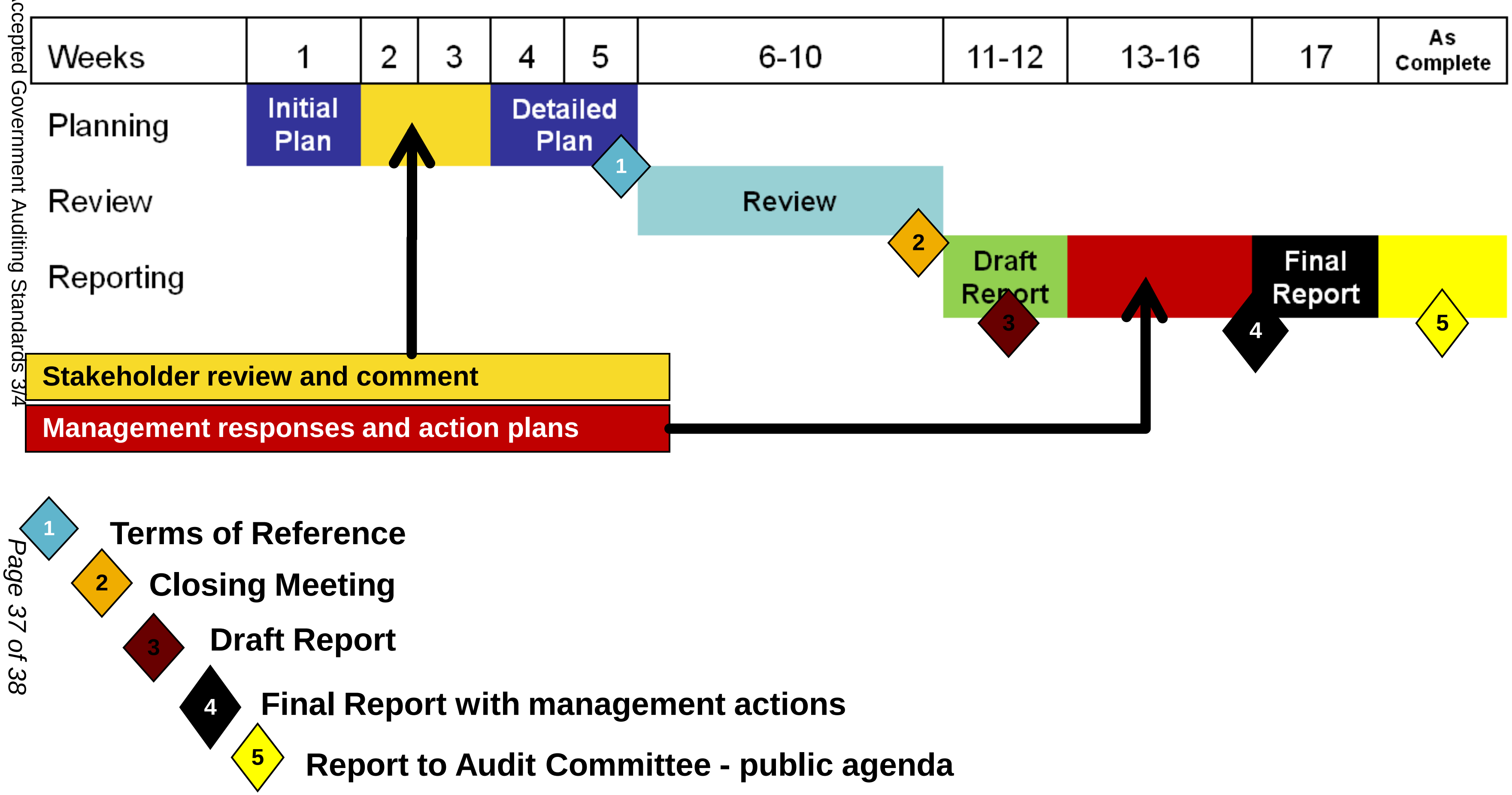
The Audit Process and Government Auditing Standards

By: Brian Bigger, Auditor General
On: September 7, 2011
To: Audit Committee

Government Auditing Standards



Audit Process Timeline



Our Audit Process