

2012 - 2013 Work Plan

July 2012

INTRODUCTION

As is customary with the work of Municipal Auditors General, this document has been prepared with a view to providing Halifax Regional Council (through its Audit and Finance Committee) and the residents of Halifax Regional Municipality with a general outline of the HRM Auditor General's 2012-2013 Work Plan.

By way of background, the Office of the Auditor General (OAG) was functionally established on September 28, 2009 with the arrival of Halifax Regional Municipality's first Auditor General.

Since that time, much progress has been made in establishing the OAG operationally, in addition to fostering awareness within the HRM Administration and with the residents of Halifax Regional Municipality.

One of the annual responsibilities of the Auditor General is to present, for the information of Regional Council, the intended work plan for the upcoming year based on the current budget and available staffing. Our normal practice would be to prepare and publish our annual work plan on a yearly basis.

For the 2011-2012 work year, the need to dedicate a great deal of the office's resources to the Concerts on the North Common project for a significant period within the work year and complete projects remaining from the 2010-2011 Work Plan as well as emerging issues, suggested there was not an immediate need to create additional projects within a 2011-2012 work plan. Therefore, the 2011-2012 Work Plan became an extension of the 2010-2011 plan along with emerging issues.

The 2012-2013 audit year will be the third full year of operation for the OAG. For information on the results of work completed by the Office of the Auditor General during the previous two years of operation, the reader is referred to the first two annual reports of the OAG which were released on March 28, 2012 and August 13, 2012 respectively. These reports can be found at <http://www.halifax.ca/auditorgeneral/index.html>.

It should also be noted, in any given year, a number of factors will influence the number and type of audit projects both undertaken and completed. These factors include:

- the approval of the Auditor General's budget as submitted
- the extent of issues brought forward through the TIPS contact line as well as Administrative Orders 40 and 41 matters brought to the attention of and dealt with by the OAG

- the type and extent of work performed by internal audit or service review groups within HRM
- emerging issues which are accepted by the OAG Project Committee and score above a risk filter threshold suggesting a need for immediate consideration.

With these and other factors in mind, the OAG continues to use a somewhat 'annualized-rolling' approach to addressing the matters identified in the work plan. The 2012-2013 Work Plan has been prepared based upon the accepted projects which received a minimum 'priority' scoring; however, the Auditor General reserves the right to modify the plan as the 2012-2013 year progresses.

Also, as is common with Auditors General, for various reasons, not all proposed projects will be completed within the work year as they may be commenced late in the year, therefore a number will almost certainly be carried over to be completed the following year as part of that work plan.

ROLE AND RESPONSIBILITIES

The Halifax Regional Municipality Office of the Auditor General recognizes the distinct powers and responsibilities of Regional Council, the Administration and the Auditor General.

While the work of the Auditor General, by necessity, must be carried out in an independent and objective manner, the greatest overall value in the determination of which programs and services are offered, their management and the accountability to the public of the effectiveness of those same programs and services, is achieved with the input of all three groups above.

The specific role description and responsibilities of the Auditor General are set out in the Halifax Regional Municipality Charter which includes, among other things, the following:

Section 50(1) states the Auditor General is responsible for assisting the Council in holding itself and the Municipality's administrators accountable for the quality of stewardship over the public funds and for the achievement of value for money in the Municipality's operations.

Section 50(4) states the Auditor General shall file annually with the Council a work plan of the Auditor General's activities.

Section 50(6) requires the Auditor General to report annually to Council in a public meeting.

The role also includes the monitoring of various activities and organizations where HRM may be exposed to financial or other forms of risk.

ACCOUNTABILITY

The Office of the Auditor General is accountable to the residents of the Halifax Regional Municipality through its Regional Council.

The Auditor General may attend Audit and Finance Committee meetings and on a periodic basis provide a status report of various projects as well as the overall work plan. The Auditor General on occasion requests meetings with the Chair of the Audit and Finance Committee to discuss specific issues or matters which it is felt may require the immediate attention of the Audit and Finance Committee or as a means of vetting initial findings and proposed courses of action.

Regional Council ultimately holds the Administration accountable.

WORK PLAN 2012-2013 SUMMARY OF DEVELOPMENT OF THE PLAN

The 2012-13 Work Plan will be composed of a number of elements ranging from new projects to be commenced to the completion of projects currently in progress.

The plan will contain specific information with respect to the following:

- projects currently in progress
- new projects to be commenced which are carried forward from the 2011-2012 Work Plan
- new projects to be commenced which were not previously contemplated
- any requests from Regional Council which, after consideration by the Auditor General, are accepted as projects and included in the work plan
- emerging issues which are not known at the time of preparation of the work plan, but after consideration, are felt to be of sufficient importance to be immediately included in the work plan
- other matters.

The process used in determining which projects are to be included in the annual work plan is essentially as follows:

1. Possible projects are identified through observation, discussion, research of other projects being undertaken by Auditors General at the federal, provincial and municipal levels, comments provided by residents of HRM, personal experiences of members of the OAG and various other means.
2. Risk assessment interviews are held with senior and middle managers of HRM to discuss any continuing or emerging issues.
3. Each possible project is brought forward and discussed initially at the Project Committee level. If it is felt the project could have either current or future merit, it is accepted and entered into the audit queue for categorization as to type and risk assessment.
4. Each accepted project is initially categorized as to type (i.e. performance, audit of opportunity, compliance or controls review).

5. Once categorized, a risk evaluation filter is applied. Each accepted project is assigned a risk weighting. The purpose of the risk weighting is to assist the Auditor General in determining which projects have the greatest perceived overall organizational risk and should move forward in the selection process for possible inclusion in the yearly work plan. For the development of the 2012-2013 Work Plan, any accepted project which was rated at or above an established threshold of 75% of the maximum potential risk of 20 which could be assigned to any one project, was considered for the final group to be included in the plan. Those projects falling under the established threshold were placed in a deferred pool to be reassessed in the following year's risk assessment process.
6. Those projects meeting or surpassing the established threshold comprise the active pool and are then filtered using the Auditor General's yearly theme and other considerations such as skills and experience of the current staff or other obtainable resources and available budget.

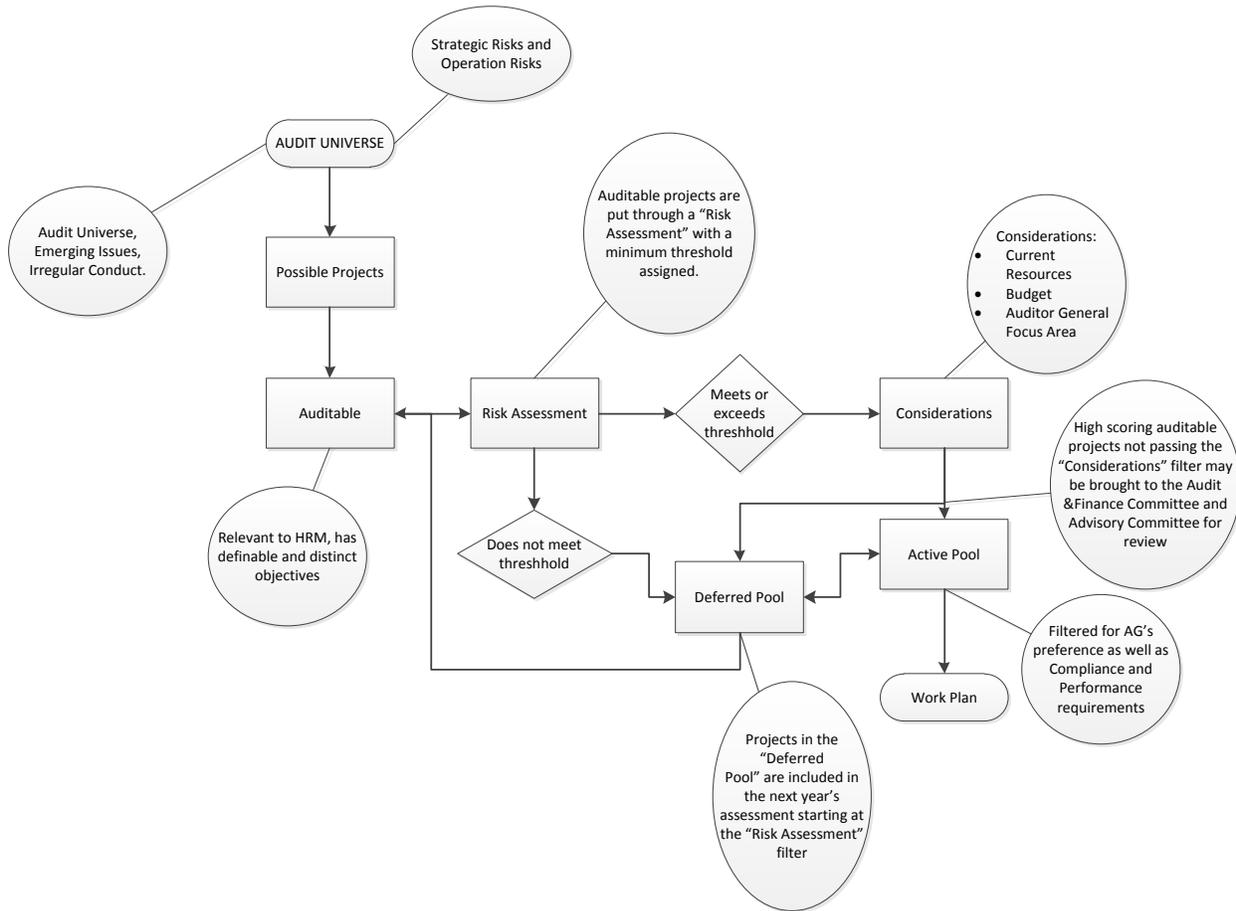
2012-2013 WORK PLAN THEME

As is customary with the work plans of many Auditors General, a theme was chosen to assist in the development of the final list of known projects to be included within the plan. A variety of themes could have been selected, but given past experiences of the OAG and the significant time and resources expended by the Office in the development and refinement of performance based auditing, the 2012-2013 theme will continue to be Performance.

In previous plans, the definition of performance auditing was essentially described as value for money. Over the past year, the OAG has spent considerable time on the further development of an audit matrix to better define each of the three widely accepted components of value for money: efficiency, effectiveness and economy commonly referred to as the 'three Es'.

The HRM Office of the Auditor General has committed itself, to the extent possible, to be on the so-called 'leading edge' of performance auditing and, with each project, to specifically address and comment on one or more of the three Es. This is, of course, in contrast to general recommendations which use only the basic concept of value for money as the basis for the comments made.

PROJECT SELECTION FLOW CHART



RISK ASSESSMENT USED IN DEVELOPMENT OF 2012-2013 WORK PLAN

The development of the work plan essentially followed the process as previously outlined. As was indicated and as suggested in the process flow chart, the impact of the risk assessment is an essential component around the selection of projects. With this in mind, areas of HRM risk were identified in a number of ways:

- the knowledge and experiences of the current Auditor General and staff of the OAG
- recently completed projects
- research and analysis of identified risks of other municipal units and levels of government
- a series of detailed interviews (18 in total) between February 6th, 2012 and May 7th, 2012 with senior HRM officials. Included within this group were the following:
 - the CAO and Deputy CAO
 - the directors of all business units with the exception of one
 - six members of the Audit and Finance Committee
 - various other members of HRM Management.

Using a standard interview template, the OAG attempted to gain a greater understanding of the potential strategic and operational risks affecting each business unit. These interviews resulted in a number of potential risk items. In total, 81 separate items were identified, of which 41 were rated as potentially high risk, 23 as medium and 17 ranked as low.

The results of this project/exercise were discussed by the OAG and a number of themes were identified. They are as follows:

1. Development of human resources - relating to the matching of skills, experience, etc. with tasks and objectives
2. Clarity across business units and individual positions - relating to organizational structure, communications and functional responsibilities
3. Identified potential risks related to the management of third-party agreements were mentioned a number of times (HRM community and regional assets)
4. Revenue sources - protection of existing and development of new sources
5. Issues relating to or lack of perceived proper administration of shared resources at the business unit level.

SERVICES PROVIDED BY THE OFFICE OF THE AUDITOR GENERAL

Performance audits - are based upon three possible strategies. In each case, the objective is to measure against established criteria, various overall HRM programs as well as individual business unit services and programs to determine the extent to which they are being managed with due regard to efficiency, effectiveness and economy (the three Es). These types of projects will also comment on the extent to which potential risks are being managed. Possible strategies are to:

1. examine results against established criteria, i.e. performance measures which appear broadly accepted as a measure of the three Es
2. determine, in a broad sense, whether the Administration has means in place to measure and report on the three Es and review the responsiveness of the performance measures in place in achieving the three Es
3. create ad hoc criteria by the OAG.

Also within the Performance Audit Framework, the OAG intends to become more focussed in the definition of our Performance Audits. For example, audits will be conducted at both an entity level as well as at the program level. In other words, reviews will be carried out of either an entity or part entity or possibly a program of an entity. It is also possible a review may take place at the organization-wide level (the recent work done around overtime costs and benefits would be an example).

Opportunities or higher risk audits - projects identified as high potential risk or where audit or review procedures are deemed to provide the greatest organizational value for the time committed. It should be understood, other projects may rank higher in terms of potential value, but are not being undertaken at the time due to resource constraints (the project would require too much of the available time budget) or where the technical resources are not currently available within or to the OAG.

Compliance audits - undertaken to measure the extent to which various activities or recommendations have been accepted and acted upon; also, compliance of the organization or organizational partners with, for example, various laws, regulations, contracts and funding agreements or policies.

Unforeseen matters which emerge and are judged to require immediate attention - these represent projects not foreseen at the time of preparation of the yearly work plan but once known, are felt to be of such significance they become a Precedence Project and are included in the yearly work plan. Given resources and timing, it is possible these projects may not be completed within the current work cycle; however, their commencement would take place.

Investigations - the OAG continues to be the initial contact point for oversight of Administrative Orders 40 and 41. The amount of time this function may require is difficult to predict, however, given the previous year's results where the OAG received 71 inquiries and opened 17 files through the TIPS Hotline (see below), a significant amount of staff time has been allocated to this function.

The investigation and ultimate disposition of these matters continues to be the responsibility of the OAG with representation from HRM's Administration as it is the Administration which holds responsibility for disciplinary matters and organizational systems and controls. The OAG will continually monitor the progress and disposition of each matter, consider whether any inclusions are warranted in the project pool (audit work plan) or make recommendations to improve internal systems or controls as deemed appropriate.

Contact Line Administration - As part of the 2010-2011 Work Plan, the OAG launched the TIPS Hotline. In early 2012, an online TIPS Hotline form was also implemented to improve the logging, administration and reporting of those issues received through the TIPS Hotline. The 2011 TIPS Hotline report was released by the Office of the Auditor General in February 2012 and can be found at: <http://www.halifax.ca/AuditorGeneral/documents/TIPS2011AnnualReport.pdf>.

ONGOING SET-UP OF OAG AND OFFICE MATTERS

During the latter part of 2011, the Office of the Auditor General relocated offices, resulting in improved efficiencies and economies. OAG staff are housed in one secure location with appropriate work spaces and meeting areas which encourage and enable a professional atmosphere while continuing to provide for the protection of staff and resources.

ADMINISTRATION & MONITORING OF DAY-TO-DAY ACTIVITIES

In order to ensure the OAG is itself directed in an efficient and effective manner, daily work activities are tracked with a view to achieving the following:

- benchmarking of actual time spent on individual projects versus the budgeted time to allow for variance analysis
- measuring the work achieved by each staff member towards the completion of the annual work plan
- progress of the annual work plan
- predicting time which may be available to add to the work plan or to deal with emerging issues
- benchmarking information for the planning of future audits
- benchmarking and performance measurement as part of an ongoing peer review program and comparison to other OAGs.

2012-2013 WORK PLAN (Includes work carried over from 2011-2012)

PERFORMANCE PROJECTS	Provide commentary with respect to the efficiency, effectiveness and economies of HRM's management and use of resources
Economic Development through Partnerships	Commenced in 2011 - Assess performance of HRM in the use of available resources in various economic development activities and in support of other organizations involved in economic development.
Use of External Consultants	Commenced in 2011 - Review the use of consultants on both short and long term basis. Assess performance and value for money criteria used by HRM.
Metro Transit Performance	Assess Metro Transit service delivery against various efficiency, effectiveness and economies performance measures, both internal and industry-wide. Also provide commentary on fare evasion.
Capital Project Management	Review of the processes used in the development of the capital budget and the criteria for inclusion of items. Will look at how projects are managed and the accounting for individual projects. Also, a review of the reporting for projects will be undertaken with a view to understanding, for example, how the overruns for the Washmill Lake Court Extension project took place.
Administration of Training Expenditures	Review the administration of the Training Budget by HRM's Human Resources business unit.
Review of Administrative Functions of Agencies, Boards and Commissions	Review of possibilities for economies in administration and operational functions of various agencies, boards and commissions. The review will also consider possibilities for shared services.
Contracted Services as Opposed to In-House	Will focus on efficiencies and economies performance measures with respect to HRM's use of contracted services with an emphasis on value received and added.

OPPORTUNITIES PROJECTS	Projects identified as high risk or where audit or review procedures are deemed to present the greatest organizational value for the time committed
Development and Use of Spreadsheets	Review current policies and practises around the use of spreadsheets. Assess the management of organizational risks relating to the use of or loss of spreadsheets.
Records Management Policy	Review level of organizational understanding and compliance with stated policies. Determine how risks are assessed and managed.
Span of Control, Levels of Management	Commenced in 2011 – Evaluation of the management structure within HRM with regard to the ratio of management positions to direct reports and as compared to similar entities.

PERFORMANCE /OPPORTUNITIES PROJECTS	Where it is felt the project contains both an element of performance as well as presenting itself as high opportunity
Facilities Inventories and Management	Determine how various risks are being identified and managed. Ensure there is a full inventory and assessment of all assets. The role of land banking in Economic Development.
Fire and Emergency Services - Asset Management	Review existing process for management of assets. Assess effectiveness of process in safeguarding assets.
SAP User Authorizations	Review processes and policies around management of user access to various SAP modules.
Property Inspection Program	Evaluate from an effectiveness and economics perspective HRM's various property and other inspection programs.

EMERGING ISSUES	Represent projects which were not foreseen at the time of preparation of the yearly work plan
Expected to be in the nature of performance audits or audits of opportunities	The Auditor General may become aware of these projects in a variety of ways. The Auditor General may feel, given the risk assessment assigned by the Project Committee to the project, it is appropriate to immediately assign resources or possibly supersede a project in the yearly work plan.
TIPS Hotline	Issues which are brought to the attention of the OAG which fall within Administrative Orders 40 and 41, new information becoming available around systems and controls, as well as value for money being spent.

COMPLIANCE PROJECTS	Projects to determine compliance with various laws, regulations, contracts and agreements and HRM policies Additional review to determine if accepted recommendations have been acted upon from previous projects
Mayor and Regional Council Expenses	Commenced in 2011 - Ongoing project given increased need for transparency, especially in consideration of increased levels of accountability at Provincial and Federal government levels.
Senior Management Expenses	Given increased need for transparency, especially in consideration of increased levels of accountability at Provincial and Federal government levels.

FINANCIAL ANALYSIS AND QUALITY OF REPORTING	Matters which impact quality of financial information and reporting
Consistency of Use of Cost Centres and Cost Elements	Review of cost centres/elements within specific services. Assess consistency of reporting. Assess comparability for management and reporting purposes.