

# *The Corporation of the City of Windsor*

## *Enterprise Strategic Leadership*

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*Final Internal Audit Report*

*25 April 2014*

### **Distribution List**

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# Summary of Internal Audit Results



The engagement has been performed in accordance with the scope as per Appendix A.

## Report Classification

In general, management controls for enterprise strategic leadership are sufficiently reliable for the purpose envisaged. Overall, annual plans are developed and reported against. Risks related to strategic objectives are identified and monitored. Personnel understand their roles and responsibilities. Strategic plans and communication mechanisms are in effect to enable a two way flow of information from Council through management and personnel. The planning process has indications that it is a consultative process. Overall, there is a guiding framework for setting strategic objectives, aligning the objectives to major initiatives and projects and measuring and monitoring progress and accomplishments. This framework ensures that decisions are made by the City such that they are aligned to the desired outcomes. Overall, the timeliness of reporting progress towards the attainment of strategic imperatives is an area management should consider improving through the identification of a selected subset of key strategic indicators that provide progress visibility through the year on a quarterly basis.

We do not expect that addressing the enterprise strategic leadership finding will be a significant activity.

Based on the controls identified and tested as part of the Internal Audit of the City’s Enterprise Strategic Leadership process and controls we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there is:				
Sample tests indicated that process controls were operating such that there is:				

See Appendix B for Basis of Finding Rating and Report Classification.

## Summary of Positive Themes

During the review of the processes and controls, the following areas were noted as positive themes:

**Planning:** Corporate Strategic Action Plan, which outlines priorities based on the current and future issues, is approved by Council. Budgets are approved by Council.

**Risk Management:** Identification and analysis of relevant risks to achieving the city’s strategic objectives is embraced by management with ongoing coordination and communication through Council reports and Corporate Strategic planning & reporting processes.

**Information, Coordination and Communication:** Overall, strategic objectives are identified, captured and communicated in a form and time frame that enables employees to carry out their individual responsibilities to support these objectives. The City and its stakeholders promote communication and transparency. Management engages in a consultative process (including Council, staff and community members) to create and adopt the Strategic Plans.

**Monitoring:** Management routinely monitors the City’s operations and decisions and the monitoring activities include performance benchmarking against other municipalities. Strategic initiatives are monitored and reviewed and progress towards the overall strategic plan is followed-up on. Progress towards the overall strategic plan for all members of senior management is monitored as part of the annual performance appraisal process. The approved budget is compared to actual.

**Performance Management:** Committees of Council are evaluated against how well they have met their objectives and how well they have carried out their responsibilities. Annual Corporate Strategic Plan Report Card is prepared and presented to Council.

## Summary of Findings

The following table provides a summary of the internal audit findings and management actions:

Finding	Topic	Rating <sup>1</sup>			Management Action
		Significant	Moderate	Low	
<b>Strategic Leadership</b>					
<b>Strategic plan attainment and review</b>					
1	Frequency and Timeliness of Monitoring Activities			X	1. Enhancement of Quarterly Operating Budget Variance Report to include additional performance statistics – CAO, Chief Financial Officer and Deputy Treasurer – Financial Accounting – 2015 Q4.
<b>Total Audit Findings</b>		<b>0</b>	<b>0</b>	<b>1</b>	

## Management Comments

Refer to the Findings and Action Plan section of the report for details on the management action plans.

# Detailed Observations

## Findings and Action Plans

Finding	Rating	Recommendation & Action Plan
<b>1. Frequency and Timeliness of Monitoring Activities</b>		
<p><b>Observation</b>            During the actual year there is no reporting on selected key strategic indicators as evidence of progress or course corrections towards strategic imperatives. An annual Corporate Strategic Plan Report Card is prepared and presented to Council. It was noted that the Corporate Strategic Action Plan ("CSAP") Report Card provides useful metrics to monitor the progress towards the overall strategic plan and objectives but feedback on results is provided only once per year. These results are provided 10 months after the 12 month period to which they refer (i.e. results in October 2013 for the 2012 calendar year).</p> <p>Furthermore, it was learned that the Decision Making Tool in the Appendix of the CSAP was not utilized in the year.</p>	<p><b>Overall</b> Low</p>	<p><b>Recommendation</b>            Given the significant investment in creating the CSAP and the associated timeline management should consider identifying a small subset of key strategic indicators/imperatives and providing a quarterly status update so that progress towards goals is transparent and/or appropriate changes may be made. These indicators may be a subset of the CSAP or could be higher level indicators. The critical element is to define the strategic indicators and track progress towards, or enact modification of the overall strategic imperatives in a timely manner.</p>
<p><b>Implication</b>            The lack of a frequent measurement process may lead to decisions that are not appropriate or timely. Performance assessment metrics are not available for 11-12 months after the period to which they relate which increases the likelihood that corrective action is delayed.</p> <p>By not utilizing the Decision Making Tool, there is a potential risk that decisions made are not linked to the CSAP objectives and the Report Card results may not be predictable.</p>	<p><b>Impact</b> Medium</p>	<p><b>Management Action Plan</b>            Management agrees with the finding and agrees that establishing key strategic indicators and targets that allow the Corporation to measure progress in the achievement of its objectives is an important and desirable activity. However, management believes that there are several constraints that would prevent effective quarterly reporting of these measures. Quarterly reporting is problematic because the CSAP data collection process is tied to the OMBI data collection process – the OMBI process is defined by the OMBI membership and not by the City in isolation. Quarterly reporting would also require additional resources that management feels would be best deployed on core City priorities and projects. The early focus of the CSAP reporting process was on metric establishment and definition, establishing data gathering procedures and developing the look and feel of the report. Additionally, significant effort was expended in the development of a data retention capability and an easy to use user interface. The establishment of targets is a future goal. Even reporting a limited subset of CSAP indicators on a quarterly basis would be challenging due to resource constraints and existing business practices (including the current data collection cycle). However, the quarterly variance report will begin to feature some enhanced and current statistical information on both Corporate and community trends. Finally, the Decision Making Tool in Appendix A of the CSAP was meant to be an informal advisory tool for employees rather than a formal, required checklist for major Corporate projects and initiatives.</p>
<p><b>Root Cause</b>            There is a significant amount of data to compile in sequence within resource constraints.</p>	<p><b>Likelihood</b> Unlikely</p>	<p><b>Responsibility</b>            CAO, Chief Financial Officer &amp; City Treasurer and Deputy Treasurer – Financial Planning</p> <p><b>Due Date</b>            Fourth quarter of 2015.</p>

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## *Considerations for Improvement*

There were no additional considerations for improvement noted during the review of Enterprise Strategic Leadership processes.

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# ***Appendix A: Background & Scope***

## *Linkage to the internal audit plan*

As part of the Council approved 2013 Internal Audit Plan, Internal Audit reviewed the process to provide governance and strategic leadership to the City and the associated processes and controls to ensure that City policies are implemented.

## **Scope**

### *Overview of the business/process to be reviewed*

The City's organizational structure is led by the Chief Administrative Officer (CAO) who is responsible for providing strategic leadership to the City in addition to providing ongoing oversight of major City projects and initiatives. The Corporate Leadership Team (CLT) members, who report to the CAO, are responsible for providing governance, oversight and strategic leadership to their respective departments. These departments consist of Senior Management Team (SMT) members, who report to the CLT, and are responsible for ensuring their respective functions within the department are operating according to plan and remain within budget.

As part of internal audit of the business processes and controls in effect to enable corporate governance internal audit considered:

- tone at the top/ethics and values
- performance management
- accountability
- policy management
- risk management
- control environment
- coordination and communication

Given the City's dependency on corporate governance and strategic leadership, it was determined that an internal audit to review these areas was necessary to ensure that the current processes in place are sufficient and appropriate to help the City meet the objectives of its strategic plan.

Although these processes may be present at the departmental level, our internal audit focused on the review of these processes at the City enterprise level and more specifically the roles of the corporate leadership team in the governance, strategic leadership and policy management processes. Therefore, specific departmental control processes and activities are beyond the scope of this internal audit and we focused on enterprise/corporate wide processes and controls.

### *Specific Scope Limitation*

The Internal Audit Function, led by PwC, is responsible for tracking and taking necessary actions in regard to all hotline calls and respective voice mails left on the hotline. As such, the review of controls surrounding the hotline were not considered in the scope for the purposes of this, or any internal audit project led by PwC

# Appendix B: Basis of Finding Rating and Report Classification

## Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

## Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> <li>History of regular occurrence of the event.</li> <li>The event is expected to occur in most circumstances.</li> </ul>
Likely	<ul style="list-style-type: none"> <li>History of occasional occurrence of the event.</li> <li>The event could occur at some time.</li> </ul>
Unlikely	<ul style="list-style-type: none"> <li>History of no or seldom occurrence of the event.</li> <li>The event may occur only in exceptional circumstances.</li> </ul>

## Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value <sup>1</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Significant control weaknesses, which would lead to financial or fraud loss.</p> <p><b>An issue that requires a significant amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Failure to meet key strategic objectives/major impact on strategy and objectives.</li> <li>• Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage / opportunity</li> <li>- Loss of supply of key process inputs</li> </ul> </li> <li>• A major reputational sensitivity e.g., Operating budget, tax rates, credit rating, credibility with stakeholders and brand name/reputation building.</li> </ul> <p><b>Legal / Regulatory</b> Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p><b>An issue that requires some amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• No material or moderate impact on strategy and objectives.</li> <li>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives</li> <li>• Moderate reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p><b>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Minimal impact on strategy</li> <li>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives</li> <li>• Minimal reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with minimal consequences.</p>

<sup>1</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

## Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
<b>Cause for considerable concern</b>	<ul style="list-style-type: none"> <li>• Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Material losses have occurred as a result of control environment deficiencies.</li> <li>• Instances of fraud or significant contravention of corporate policy detected.</li> <li>• No action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
<b>Cause for concern</b>	<ul style="list-style-type: none"> <li>• Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Losses have occurred as a result of control environment deficiencies.</li> <li>• Little action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
<b>No major concerns noted</b>	<ul style="list-style-type: none"> <li>• Control design improvements identified, however, the risk of loss is immaterial.</li> <li>• Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Some previous significant audit action items have not been resolved on a timely basis.</li> </ul>
<b>No or limited scope for improvement</b>	<ul style="list-style-type: none"> <li>• No control design improvements identified.</li> <li>• Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial.</li> <li>• All previous significant audit action items have been closed.</li> </ul>