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Halifax Regional Council
December 6, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


S. Dale MacLennan, CA, Director of Finance

DATE: November 25, 2005

SUBJECT: Comprehensive Audits

INFORMATION REPORT

ORIGIN

November 22, 2005 Regional Council request for a staff report on the cost associated in carrying out an audit of all HRM departments.

BACKGROUND

At the November 22, 2005, regular meeting of Council, Councillor McCluskey introduced a notice of motion to request Council to support a comprehensive audit be carried out on all departments of HRM. The notice of motion specified this be carried out by an external audit team and was to include at least two departments each year.

In January 2003, the function of Internal Audit was established within the HRM. Reporting to the Audit Committee of Council through the Chief Administrative Officer, the Business Systems and Control Group has been providing assurance and consulting services to the HRM for three years. Day to day management of the function resides with the Finance Business Unit with a direct line of report to the CAO for all audit work. Their primary goal is to improve opportunities to achieve organizational objectives; identify operational improvements; and/or reduce risk exposure through assurance and consulting services. The Business Systems and Control Group Charter outlines the

mandate and role of the group and re-enforces the auditing standards of independence and objectivity.

DISCUSSION

Types of Audits:

There are a variety of auditing services recognized within the professional auditing community. These services include:

1. Financial Statement Audits
2. Operational Audits (Value-for-money)
3. Compliance Audits
4. Comprehensive Audits - A combination of Financial, Operational and Compliance Audits.

1. Financial Statement Audits are usually performed by external auditors who are hired as independent contractors and who normally report to parties other than management. The focus is on financial statement information and the objective is to provide assurance that the financial statements, as prepared and presented by management, accurately reflect the financial situation from the operating results over a specific period of time.
2. Operational Audits are usually performed by internal auditors who are employees and who report to management. Operational auditing focuses on the economy, efficiency and effectiveness of the organization in achieving its stated objectives(effectiveness), at the lowest cost (efficiency) and acquiring assets and services of the appropriate quality at the lowest cost (economy). These audits are future oriented as the auditor is suggesting improvements for the future.

There are no generally accepted criteria for operational audits as suitable criteria will change based on the subject of the audit. There are internal auditing standards accepted and practised by internal auditors around the globe. Auditors develop suitable criteria appropriate for each assignment. This requires creativity, knowledge of the activity and even advice from experts.

3. Compliance Audits can be performed by both external and internal auditors. The objective of this type of audit is to determine the level of compliance with legislation, policies and procedures established for the activity under review.
4. Comprehensive Audits are generally performed in the public sector. Under this type of audit, the auditor establishes the objective and scope of the work to be completed, the standards and nature and sources of evidence, and time period of the review. These factors vary between audits and may involve a multi-disciplinary team. The focus of the audit is non-financial, although finances may be examined but in greater detail than at financial statement level.

Current Service Structure:

1. Financial Statement Audits: Section 42 of the Municipal Government Act requires HRM to appoint a “municipal auditor” to report to Council on the financial statements of the HRM each year by July 31. In HRM, the external auditor is KPMG, LLP and they report their findings directly to the Audit Committee of Council. The External Auditor adheres to CICA standards for conducting and reporting on the Financial Statement Audit.
2. Operational Audits: Although not required by legislation, HRM has established the function of internal audit in the Business Systems and Control Group who conduct operational audits and report their findings to the CAO, Management and the Audit Committee of Council.
3. Compliance Audits: The Business Systems and Control Group conduct Compliance Audits and report their findings to the CAO, Management and the Audit Committee of Council. Occasionally, external resources have also been used. The acquisition of external services rests with the Business Systems and Control Group.
4. Comprehensive Audits: This is the most common type of audit performed by the Business System and Control Group.

A risk-based approach is taken in determining the scheduling of each engagement. Those activities, services or programs considered at greater risk of not achieving organizational objectives are scheduled first. Over time, all activities, services and programs within HRM will be reviewed but not necessarily on a department by department basis which is problematic due to the highly integrated and decentralised approach to service delivery in HRM.

Cost of Providing Comprehensive Audits:

The 2005/06 annual budget for Business Systems and Control is \$200,962. Two staff provide assurance and consulting services, augmented with resources external to BSCG, as needed. The 2005/06 audit plan has allocated staff hours to a variety of review activities including:

1. Street Cuts Restoration (2 Business Units, HRWC)
2. Cash Control - In-Coming (Across all Business Units)
3. Civic Code Enforcement (Across 10 Business Units, RCMP)
4. Heritage Grant Incentive Program and Reserve Policy (3 Business Units)
5. Operational Review of General Fleet Services (Across all Business Units)

The time frame for completing a comprehensive audit ranges from 100 to 700 hours, depending on the scope of the work and using staff who are already familiar with internal systems and processes. Based on the 2005/06 annual budget, this equates to approximately \$70 per hour of internal resource time. In comparison, a recently completed short listing of external resources through an EOI process resulted in hourly fees of between \$75 and \$400. The average hourly rate quoted is \$250. All factors

remaining the same for 700 hours of work, this could amount to an incremental cost of \$175,000 for each comprehensive audit performed with external resources compared to the internal cost of \$49,000. Council may want to consider whether such costs could more effectively be deployed by enhancing the internal resources of the Business Systems and Control Group.

Conclusion:

Recently, discussions have begun with the Audit Committee on the roles and responsibilities of the Audit Committee. A detailed discussion by the Audit Committee on the opportunities and challenges of engaging external services to conduct comprehensive audits could compliment the discussion on roles and responsibilities of the Committee.

BUDGET IMPLICATIONS

There are no budget implications at this time.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Not applicable.

ATTACHMENTS

None.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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