

Continuous Auditing

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ROYAL CANADIAN MOUNTED POLICE • GENDARMERIE ROYALE DU CANADA

Support to Management Review and Quality Assurance

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Purpose of Presentation

Outline a data-driven approach to:

- **Assessing key controls; and**
- **evaluating risk at detachments/units**





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- **Aim / Purpose**
- **Control Assessment**
- **Risk Assessment**





What is Continuous Auditing?

Gaining Clarity: Definitions

Continuous Auditing

- Any method used to perform **audit-related activities** on a continuous basis – includes control and risk assessment
- Performed by internal audit

Continuous Monitoring

- Processes to ensure policies/processes are operating effectively and to assess adequacy/effectiveness of controls
- Performed by operational/financial management





Continuous Auditing: Areas of Application

Continuous control assessment

Identification of control deficiencies

Identification of fraud, waste, abuse

Continuous risk assessment

Development of a risk-based enterprise review plan

Support to individual reviews

Follow-up on review recommendations





Internal Audit

- Identify risk areas, risks not managed
- Drive audit automation & efficiency
- Specify & quantify deficiencies to correct
- Foster management responsibility for controls

External Audit

- Reduce risk
- Drive audit automation & efficiency
- Focus on most important, material issues
- Provide value-add services to clients

- Manage & reduce risk
- Prioritize areas of greatest concern
- Enable executive visibility
- Drive accountability, improved controls performance, cost management

Risk, Compliance & Control Mgmt

- Avoid & reduce errors
- Detect & prevent fraud
- Improve operational efficiency
- Demonstrate responsibility for controls

Business Process Management





Aim of Continuous Auditing

High-level Summary:

- Help in determining which units will be reviewed by measuring inherent risk.

Detailed Information:

- Provide insight into what should be reviewed at selected sites (areas of potential concern/control weaknesses)
- Allow for comparison – between units
- Trend Analysis – across years



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Assessment of Controls versus Risks

Control Assessment

- Reviewing individual transactions against a set of control rules to highlight control weaknesses.

Risk Assessment

- Trends and comparisons over time and against similar units.



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Continuous Control Assessment

Control deficiency / weaknesses

Identify key business functions and their applications

Define critical control points

Define rules / exceptions

Develop analytical tests

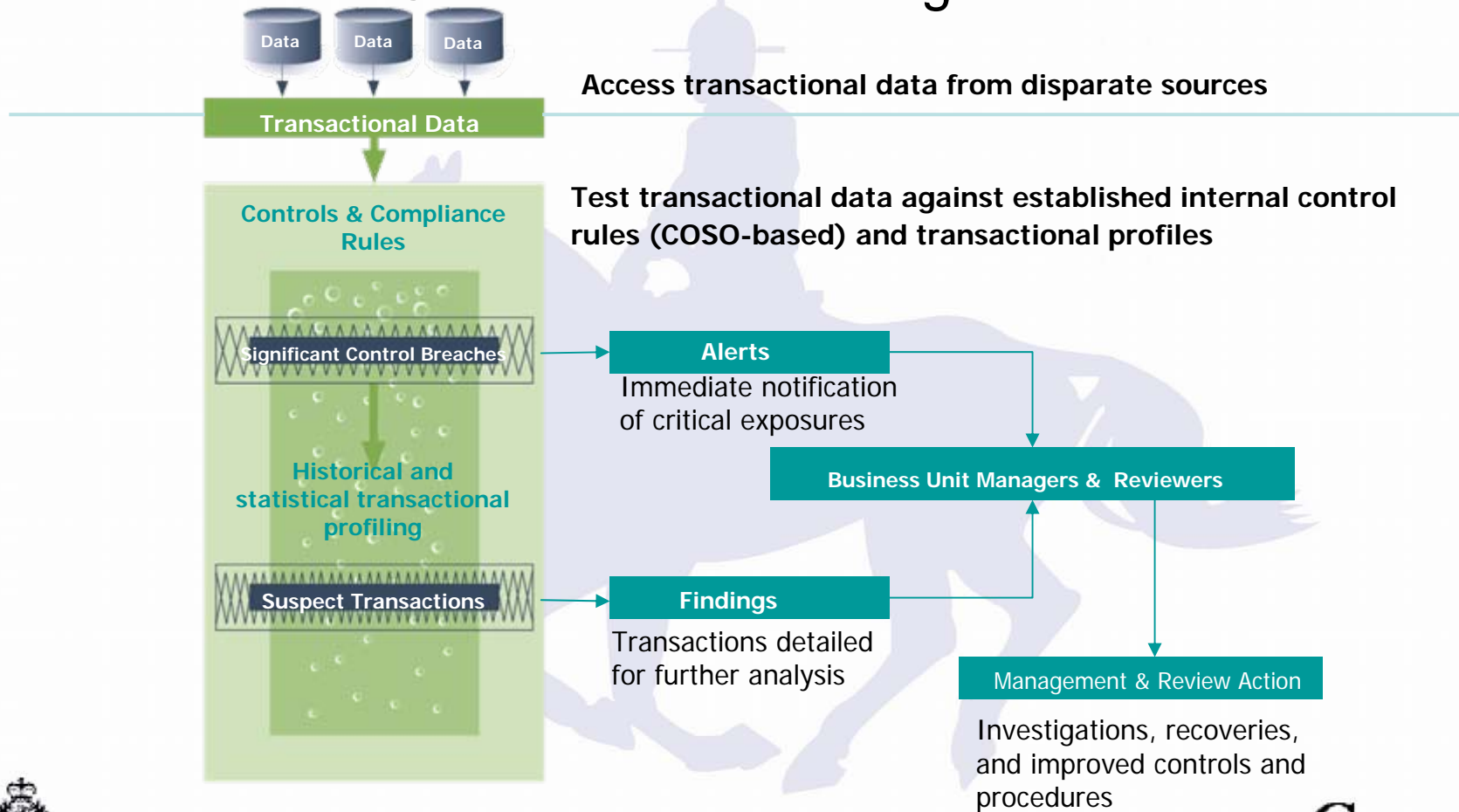
Run and report on results

Monitor and Revise





Continuous Monitoring Model





Continuous Risk Assessment

Establish enterprise (corporate) universe

Identify risk categories / consequences of risk exposure

Identify the key business processes and supporting information systems

Prioritize areas to be examined (considering risk, materiality and management concerns)

Identify data-driven indicators of risk / performance

Develop and run analytical tests

Assess controls and prioritize results

Monitor and report on results

Revise





Risk-Based Review Plan Steps

Risk-based audit plan requires:

- Establishment of review universe and definition of entities (things to be reviewed)
- Identification of risk factors or categories
- Collection and analysis of **qualitative** data such as business plans, organization charts, controls, management input, facilitated sessions, etc
- Collection and analysis of **quantitative** data such as financial, human resources, and operational information





External environment
Legal and regulatory
Strategy
Governance
Operational

Information
Human resources
Technological
Financial and administrative

RCMP risk management process uses nine (9) risk categories. Data-driven indicators – is currently only available in three (3) categories.



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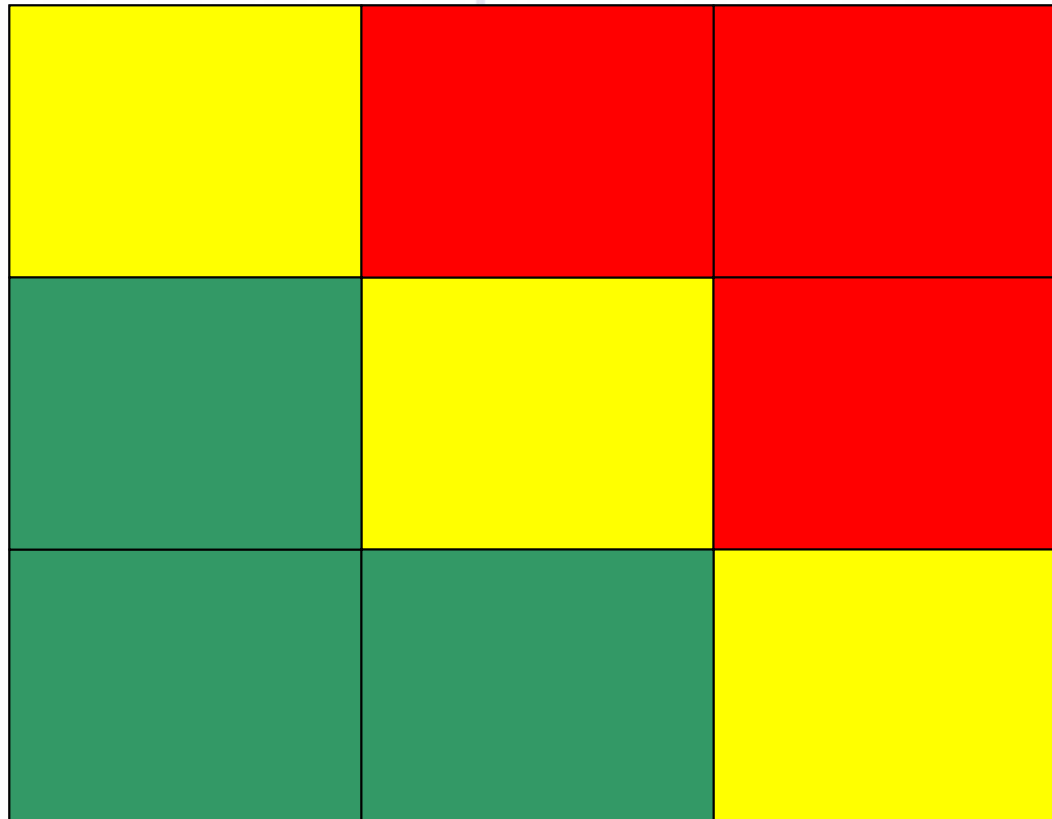
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Significance

High

Medium

Low



Low

Medium

High

Probability



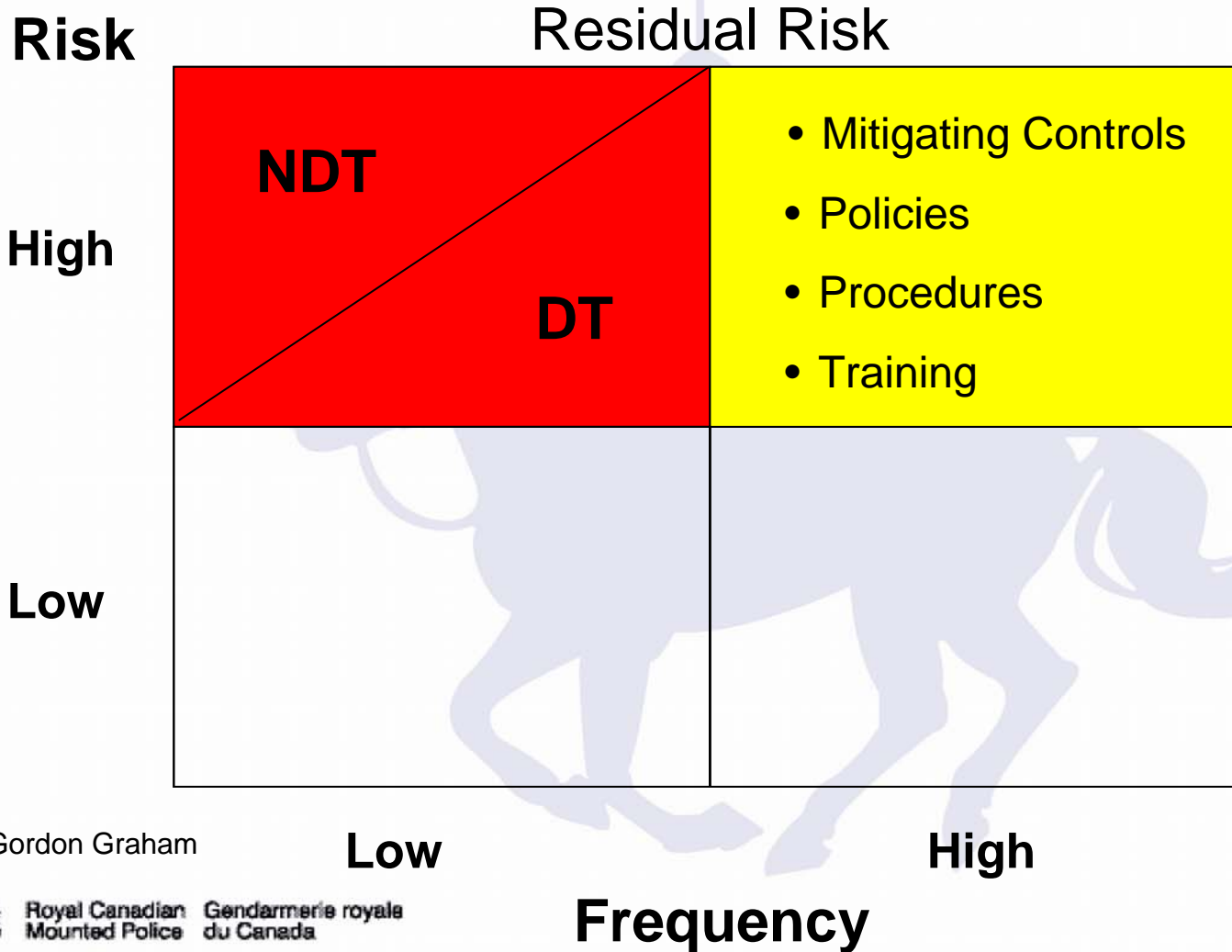
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* Gordon Graham



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What needs to be Measured?

Materiality and indicators of risk:

Measure of the size of the unit

financial, human resources, operational data

Indicator of level of risk / performance

complexity, significant changes, relative comparisons, etc.

Note: Indicators are predictors of risk / performance.



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Risk	Indicator	Measure
<p>Financial Risks - arising from improper budgeting, forecasting and expenditure controls including contracting, asset management, salaries and revenues.</p>	<ul style="list-style-type: none"> • Complex financial structure with multiple financial managers. • Poor budgetary control 	<ul style="list-style-type: none"> • # cost centres • # of GL Accounts • Revenue/expenditure and assets • High variance (budget vs actual)
<p>Human Resource Risks: Recruiting and retention – failure to attract and retain people with the right competencies and match them to the right jobs.</p>	<ul style="list-style-type: none"> • ? 	<ul style="list-style-type: none"> • ?



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Risk	Indicator	Measure
<p>Human Resource Risks: Recruiting and retention – failure to attract and retain people with the right competencies and match them to the right jobs.</p> <p>Work environment – failure to treat people with value and respect .</p> <p>Resource Allocation – failure to allocate resources in an effective manner to support the achievement of goals and objectives.</p>	<ul style="list-style-type: none"> • Lack of resources • Inappropriate resources for tasks • Untrained resources • Unhappy workforce • ? 	<ul style="list-style-type: none"> • % vacant positions • Number and type of resources • % mandatory training completed • Sick leave / Vacation • Turnover rates • Complaints/grievances • ?



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Risk	Indicator	Measure
<p>Operations: Investigation – failure to appropriately conduct investigations.</p> <p>Enforcement – Detention – Safe guarding of Assets – Etc -</p>	<ul style="list-style-type: none"> • Number and type of files • Long to complete • Success rate • ? 	<ul style="list-style-type: none"> • # Files / officer • % high / medium / low • Average time to complete (End-Start) • Conviction rate • # complaints from prosecutor • ?



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Financial Measures and Indicators

Materiality:

Total Dollars in Expenses, Revenue and Assets

Complexity/Change in financial operations:

- **Percentage change compared to last fiscal year**
- **Number of cost centres**
- **Percentage discretionary spending**
- **Existence of revenue and assets in addition to expenses**





Financial (TEAM):

Expenses	Total expenses
Assets	Total assets
Revenue	Total revenue
Pct Disc	Percent Discretionary spending
Personnel	Personnel costs
O & M	O&M costs
Capital	Capital costs
Avg O&M	Average O&M per RM
Pct OT	Percent Overtime compared to Salary
Avg OT	Average OT per RM



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Human Resource Measures and Indicators

Materiality:

Total number of personnel

Complexity/Change in human resources:

- **Number of locations of operations**
- **Mix of personnel – Full/part, consultants, union, other**
- **Percentage employee less than one year in position**
- **Average years of service (Cst)**
- **Sick leave / Vacation balances;**
- **Percentage overtime to salary**



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HR (HRMIS)

Cctr	Cost Centre/Unit/Detachment
Desc	Cost Centre Description
No HR	Total number of human resources of all types
HR No Cat	Number of Categories of Employees
No Positions	Number of Established positions
% Vacant Positions	% of positions which are not occupied
RM, CM, PS	Number of RMs, CMs and PSs
Consultants, ME, Other	Number of Consultants, Municipal Employees, Other
Sick/Vacation balances	Balance of Sick Leave and Vacation
Pct Posn Lt 1 Yr	Percent of RMs in Position less than 1 year
Cst Avg Yrs	Constable - Average years of service
Cst Pct Lt 5 Yrs	% of Cst with less than 5 years of service
Cst_LT_6_Mon	Number of Cst with less than 6 month service
Cst_LT_2_Yrs	Number of Cst with less than 2 year service
Cst_LT_5_Yrs	Number of Cst with less than 5 year service



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Operational Measures and Indicators

Materiality:

Size of operations – number of files

Complexity/Change in operations:

Percentage files (High, Medium, Low)

Number of files per officer

Clearance rates (average time to complete)

Prosecution/Trial rates





Operations (PROS / PRIME):

- Number of files/police officer
- % High / Medium / Low files
- Average Time (End Date – Start Date)
- Percentage prosecution/trail rates
- Seized Property – type and value
- ?



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Sample results:

Unit	# HR	% Vacant Posn	Lt 1 Yr Exp	% Disc	# Files	% High	Avg Days
A	345	20	45	27	22	10	12
B	501	14	32	31	28	17	8
C	483	15	28	14	26	19	9
D	522	32	31	18	41	12	6
E	298	12	18	16	24	25	7





Conclusions

Continuous Auditing: Control assessment / Risk Assessment

- **Benefits**

- Increased scope of review activities
- Increased support to risk mitigation
- Cost effective and efficient use of existing corporate data/information – intelligence gathering
- Sustainable and cost-effective means to support compliance and control assessments
- Improved review cycle times



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Questions?



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