

British Columbia Lottery Corporation Audit Services: Developing a Performance Measurement System

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EXECUTIVE SUMMARY

Introduction

The British Columbia Lottery Corporation (BCLC) operates as a Crown corporation that reports to the Ministry of Finance and is guided to fulfill its mandate by a government-appointed Board of Directors. To aid in carrying out its mandate, Audit Services (AS) is the internal audit department that was formed within BCLC. The Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2011, IPPF).

Audit Services, the client for this project, does not feel confident that it has an adequate performance measurement system; therefore, the objective of this report is to determine the best performance measurement system for AS while taking into account its position and role within BCLC and the Government of BC. The proposed system is intended to enable AS to confidently validate its performance among its own auditors and to its key stakeholders.

Having an effective performance measurement system is recognized as important in the internal audit community and in the public sector; however, a survey conducted in 2009 showed that performance measures are not universally used in the internal audit community in Canada (IIA Austin, 2009, p.1). Despite this lack of conformity or general acceptance of a model, different performance measurement models and frameworks are available for internal audit departments to explore given that some internal audit services have been early adopters of a performance framework. For example, in December 2010, the Institute of Internal Auditors (IIA) released a guide, *Measuring Internal Audit Effectiveness and Efficiency*, which provides a framework for performance measurement for organizational internal audit services to consider adopting. The framework is similar to a general balanced scorecard approach, but it is tailored for internal audit departments.

Methodology and Methods

This report analyzed performance measurement models via a primary document analysis from four major auditing bodies: the Canadian Institute of Chartered Accountants (CICA), the Institute of Internal Auditors (IIA), the International Federation of Accountants (IFAC) and the Office of the Auditor General of British Columbia (OAG) and identified the strengths and weaknesses of each model.

Through a literature review, a comparative analysis was also conducted using scholarly sources that focused on performance measurement for internal auditing in the public sector.

Findings

After considering Audit Services' current performance measurement system, its work environment and stakeholder expectations, it was determined that it would be best to develop a separate performance measurement model for Audit Services to follow and not choose an existing model although the proposed model in this report was built on aspects of other models.

Recommendations

A number of recommendations based on this new model, which is coined as the Audit Services Performance Model (ASPM), were made as per below:

- Recommendation #1 – Develop and adopt the Audit Services Performance Model framework
- Recommendation #2 - Identify relevant stakeholders and understand goals and needs of stakeholders through a stakeholder analysis
- Recommendation #3 - Align goals with objectives, strategies, performance measures in planning and reporting documents
- Recommendation #4 – Develop and monitor internal audit performance reporting
- Recommendation #5 – Develop an evaluation framework

By implementing these recommendations and staying committed to maintaining communication with its key internal and external stakeholders, AS should be poised for success within BCLC in terms of organization recognition, showing value from its activities, and improving any areas that are underperforming

A further opportunity also exists for AS to share its working performance measurement model with other internal audit departments. This will help raise AS's profile within BCLC and the internal audit community. An evaluation on AS's performance measurement system is also recommended after AS revises its current system based on the recommendations in this report possibly 1-2 years after it has been implemented to provide feedback on the changes thus far and to address any areas that need improvement.

ACKNOWLEDGEMENTS

This report could not have been completed without the support from British Columbia Lottery Corporation's Audit Services department, in particular, Audit Services Director, Gurmit Aujla.

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1.0 INTRODUCTION

1.1 Purpose of Report and Problem Definition

The purpose of this report is to develop a performance measurement framework for Audit Services in the British Columbia Lottery Corporation (BCLC). The BCLC was incorporated on October 25, 1984 pursuant to amendments to the Criminal Code of Canada in 1969 and enabling legislation. BCLC continues to act under the *Gaming Control Act* (2002) of B.C. The provincial government decided to regulate gaming in B.C. through BCLC operating as a Crown corporation and appoints its Board of Directors, which is a body that guides BCLC in fulfilling its mandate.

BCLC's mandate is to conduct and manage gambling in a socially responsible manner for the benefit of British Columbians. Gambling entertainment includes national and provincial lotteries, casino gambling, commercial bingo and online gambling (BCLC 2015). In BCLC's 2014/15-2016/17 Service Plan, it outlines its four main objectives:

1. To create an integrated player-focused entertainment company
2. To think differently, work together and act fast
3. BCLC's business and the benefits it creates are understood and supported by British Columbians
4. To grow net income through investing to sustain the long-term health of BCLC business (BCLC Service Plan, 2015, p.13)

Audit Services does not feel confident that it has an adequate performance measurement system; therefore, the objective of this report is to determine the best performance measurement system for AS while taking into account its position and role within BCLC and the Government of BC.

The main research question for this project is: What is the best performance measurement framework for government internal audit departments? Supplementary research questions that will be touched upon are: what is performance measurement; why use performance measurement; and, how is performance measurement done?

For the purposes of this report, a performance measurement framework is defined as: a consistent approach for systematically collecting, analyzing, utilizing and reporting on performance (CTA, 2015, Performance Measurement Framework for the Canadian Transportation Agency, p.3).

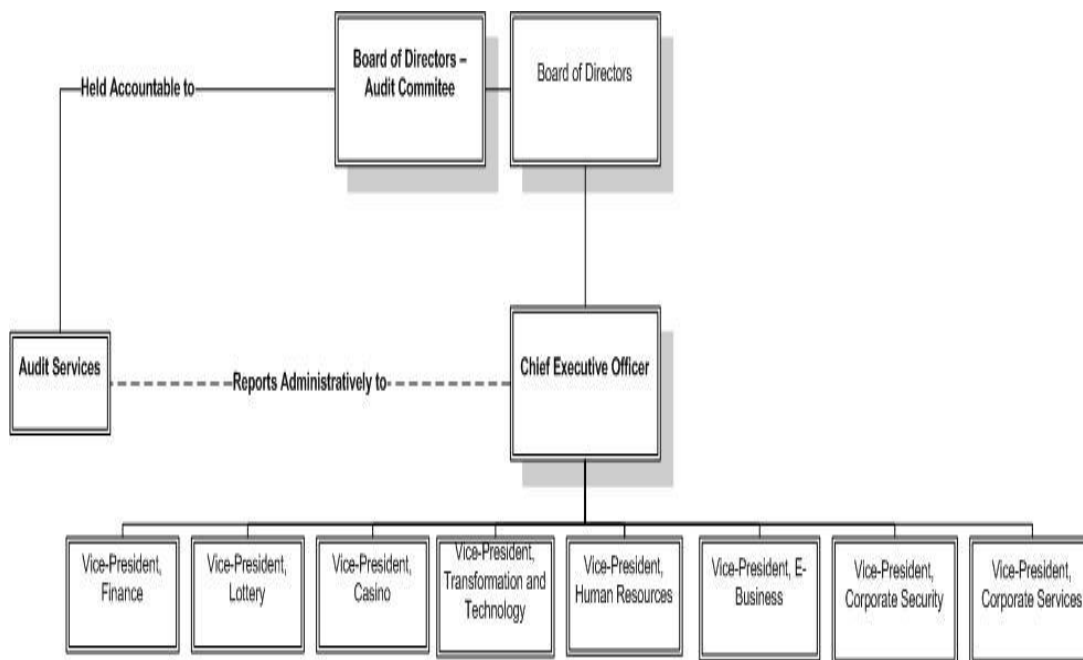
The proposed system is intended to enable AS to show its value and relevance through performance measures among its own auditors and to its key stakeholders such as the audit committee. This report will not however dive deeper into evaluation which Tricklebank (2012) mentions is a "more holistic activity, taking everything into account (including performance) to come to a good vs. bad judgment." In the internal audit context, this means that this report is attempting to position AS or internal audit the best chance for success in showing value and relevance but will not detail the evaluation process that

key stakeholders such as the audit committee in confirming that the value and relevance had truly been achieved.

1.2 Project Client

The client for this project is Audit Services, which is a department within BCLC that consists of one director, three managers, three audit staff and one administrative manager. Audit Services is held accountable to the Board of Director’s Audit Committee and reports administratively to the Chief Executive Officer (See Figure 1: BCLC Organization Chart). As noted in the Charter of Audit Services in Appendix A, the mission of AS is to provide independent objective assurance and consulting services designed to add value and improve BCLC’s operations. Audit Services assists BCLC achieve its objectives by bringing in a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

Figure 1 - BCLC Organization Chart



1.3 Rationale for Project

Audit Services is considered a value-added department as its function is not required by any regulatory standards; therefore, AS has the ongoing challenge of demonstrating to its stakeholders (the Audit Committee and BCLC Executive team) that its service is needed.

At the same time as expecting to add value to BCLC, AS is committed to being in compliance with the International Standards for the Professional Practice of Internal Auditing (Standards), which are set by The Institute of Internal Auditors (IIA). The Standard 1300 – Quality Assurance and Improvement

Program states that “the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity” (IIA, 2011, IPPF – Standard 1300, p.1). The Standard further outlines what is expected as noted below:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. (IIA, 2011, IPPF – Standard 1300, p.1)

Despite this direction, the Standards do not go into detail as to how to carry out an effective and efficient performance measurement program.

This report aims to identify and develop the most appropriate performance measurement and reporting system for AS. The proposed system’s goals are to demonstrate AS relevancy and value to the Audit Committee and BCLC Executive team.

Audit Services realizes the importance of having an effective performance measurement and reporting system and has attempted to implement various mechanisms. Analysis of these mechanisms at a high level has not been done and consequently, AS is unsure if the system they have in place is working to improve overall performance and accountability or not. Currently, AS mainly tracks performance through time utilized or spent by auditors working on various tasks, identifying what projects were completed and identifying what significant audit findings were discovered. Audit Services also tracks the professional qualifications obtained by auditors and also any training done previous to their employment by AS and during their employment with AS. On a quarterly basis, AS reports these results to the audit committee and informally communicates its results to senior management.

Further, the current method of measuring appears to focus on inputs and outputs and the proposed performance measurement will focus on these aspects as well as outcomes or results. It is also hoped and intended that with the proposed performance system, that more information will be readily available to assess the performance measurement system on a regular basis.

1.3 Background: Internal Auditing - Then and Now

To provide context for the role of Audit Services in an organization, this section will give a brief background and history of this function.

The Institute of Internal Auditors was founded in the United States in 1941, which eventually led to a worldwide expansion of over 170,000 members (IIA Annual Report 2010, p.11). Flesher (1996) and Ramamoorti (2003) noted that the growth of the internal audit profession can be attributed to the growing complexity and size of businesses. One of the founders of the IIA, Arthur E. Hald, shared this reasoning when he said:

Necessity created internal auditing and is making it an integral part of modern business. No large business can escape it. If they haven't got it now, they will have to have it sooner or later, and, if events keep developing as they do at present, they will have to have it sooner. (Arthur E. Hald 1944 as quoted in Flesher, 1996, p. 1 and 3)

Internal audit departments are continually evolving to meet this growing complexity and demands from businesses. This means moving away from only doing compliance work on internal policies and rules to being able to bring value as well. Van Gansberghe noted that this shift will require major culture and organizational change and that organizations need the willingness and resources to learn and appreciate the value proposition that internal audit can bring. On the other hand, internal audit departments will need to balance and consider the risk, size and complexity of their host organizations when determining what their place in the organization is (2205, p. 4).

Even though its roots are in accountancy, internal audit departments have been evolving to advise, report and consult on other areas of organizations such as operations effectiveness and efficiency, business transformation and risk management. Indeed, specific to this report, the performance measurement system designed will have to be flexible enough to recognize and accept change as part of its function and design. Monitoring and evaluating the AS performance measurement framework on a regular basis will assist AS and the organization as a whole to ensure that the system is up-to-date and relevant.

1.4 Organization of the Report

Following this Introduction, this report consists of six chapters. The following chapter details the methodology and methods used in this paper, which is followed by the literature review. The fourth chapter discusses the main findings of the document review and following this is a discussion and analysis of the findings. The next chapter provides recommendations to the client and finally, the sixth chapter provides some final thoughts and gives a summary of the report.

2.0 METHODOLOGY AND METHODS

2.1 Methodology

This report is a qualitative study that analyzes scholarly literature and primary sources to determine the most effective performance measurement system for AS while taking into context both the BCLC's and Government of BC's work environment and culture. To accomplish this, the methods used in this report were a document and website review of primary documents.

Further, a current state analysis was used to assess the current performance measurement system implemented by AS. Finally, a smart practices study took place that analyzed current performance measurement procedures, practices or models used by other organizations. A smart practice is defined as a tested approach that has a proven track record of success in solving a problem (UVIC, 2015, Guide for the Preparation of Master's Projects, p. 31).

2.2 Methods and Data Analysis

The approach to selecting literature for review involved searching the Internet and the University of Victoria library online research databases with the key word searches 'performance', 'measurement', 'performance management', 'public sector', 'performance measurement system/model/framework,' and 'internal audit.' The database that was used to find relevant articles, monographs and grey literature was Google.ca.

Literature was chosen to be reviewed in this study if it addressed performance measurement models or systems in either a general public sector or internal audit setting. This criterion was appropriate because BCLC's AS is an internal audit department within a public sector Crown Corporation. Other literature was selected if it discussed insights as to the general benefits, shortcomings or challenges of performance measurement. The analysis of other literature was conducted by studying mainly sources from North America. Major agreements and disagreements that were found in the literature were analyzed.

Specific to the smart scan, in terms of how the performance measurement models from professional associations or public sector websites such as the IIA, the Canadian Institute of Chartered Accountants (CICA), the Office of the Auditor General of British Columbia (OAG) and the International Federation of Accountants (IFAC) were analyzed, the following criteria were used:

- Criterion 1: Value or effectiveness is clearly shown to the audit committee
- Criterion 2: Key stakeholders are adequately involved
- Criterion 3: Ease of implementation and maintenance

These criteria were used because they were the top three factors that the client requested in terms of choosing a performance measurement model to adopt. Criterion 1 was chosen because AS understands that it is accountable to the audit committee. If value or effectiveness is not clearly shown then the

audit committee could potentially downsize AS. Criterion 2 was chosen because the AS realizes the strong connection between showing value and having key stakeholders adequately involved. Criterion 3 was chosen because AS being a department in the public sector is constantly under scrutiny for use of public funds so use of budgeted funds always need to be carefully considered.

2.3 Project Limitations and Delimitations

Limitations for this project include the narrow focus of the analysis in terms of specifically of seeking information on internal auditing within a public sector environment. As noted in the literature review, there was not a great deal of literature specific to internal auditing services within a crown corporation or in government in general.

The recommendations of this project are would be difficult to apply to the wider internal audit services community because this project was tailored to address the needs of BCLC's AS although there may be issues of interest to the wider community. The project is also limited by time constraints as there are many research materials that relate to performance measurement in general that could be used but because of space limitations, they have not been utilized.

Delimitations for this project include the choice of not using interviews as a method of data gathering and analysis. Interviews were chosen not to be used as the subject areas of performance measurement and internal audit were deemed to be widely researched and accessible. Nevertheless, key informant interviews or a survey may be deemed to be worthwhile for the client to pursue should the organization wish to get a more in-depth analysis of performance measurement frameworks in the future.

3.0 LITERATURE REVIEW

3.1 Introduction

In the context of internal auditing in the public sector, a literature review was conducted to see how the scholarly community has responded to the following questions: what is performance measurement; why use performance measurement; and how is performance measurement done. There are multitudes of performance measurement reports, articles, and books in the scholarly community; however, when discussing performance measurement of internal auditing in the public sector, the number of resources available significantly reduces in number.

Analyzing the literature on performance measurement will first of all discuss this concept in general and then the analysis will be organized according to jurisdictions.

3.2 Defining Performance Measurement

There is no single accepted definition of performance measurement in the literature; therefore, this section will look at a number of commonly used definitions to provide a general understanding of how performance measurement has been interpreted. These definitions provide a good starting point for a discussion on performance measurement as there are varied views as to how it should be done and why it is done, which will be discussed further on in this report.

One definition for performance measurement describes it as “a process for the monitoring, assessing, and reporting of accomplishments to assist better management, but it can also include broader notions of productivity, economy, efficiency, effectiveness, impact, quality, timeliness, and safety” (Encyclopedia of Governance, 2007, p.672). This definition seems to capture the main points that many other authors have used when defining performance measurement.

Rupsys and Boguslauskas (2007) investigated trends in performance measurement in internal auditing and recognized that there are many different terms used in discussing performance measurement but noted that the terms broken down into three concepts by Neely et al. (2005) were cited most often. These terms are performance measurement, performance measures and performance measurement system as defined below:

- “Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action
- A performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of an action.
- A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions” (Neely et al., 2005, p.1229).

The Encyclopedia of Governance (2007, p. 674) discusses performance measures in a different way by breaking them up into three categories: outcomes, outputs and quality. Outcome measures relate to

“overall effectiveness of organizational activities to achieve desired goals.” For example, if an activity of phoning customers for marketing a product does not help the organization reach its goal of satisfying customers, then its outcome effectiveness would be in question. For output measures, they relate to both efficiency and effectiveness of organization activities. Output can be described as the results from products or deliverables stemming from organization activities; being target oriented; and including both financial and non-financial measures. For example, an organization sells widget and wants to measure its output of how many units are made and sold. For quality measures, they “tend to focus on whether the activities of an agency meet the requirements of its clients and stakeholders.” For example, an organization that sells widget might measure the satisfaction level of the clients that purchased the widgets. The satisfaction level might contain a number of quality measures such as timeliness, safety, durability and reliability (p. 674-675).

It was found in the literature that the definition of performance measurement varies slightly depending on which organization or individual is defining it. Environmental factors, strategic objectives, operations and reporting requirements are some of the factors that will affect an organization’s definition; however, their interpretations mainly stick to the definitions noted above. For example, CICA views performance measurement as “a broad, complex concept with both short- and long-term aspects’ with the measurement portion focused on determining and reporting “what is actually being achieved with the resources consumed, in relation to what was planned” (CICA, 2011, p.2). The IIA agrees with this definition and adds that when performance measures are “effectively implemented, operated, and managed, it is an important element in helping an organization achieve its objectives” (IIA, 2010, p.1). It also brings another perspective to performance measurement when it discusses that internal auditing can help organizations even further by being able to “identify risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement” (IIA, 2010, p.1). Before this can be achieved, it stresses that internal auditing itself needs to maintain and enhance its credibility by having its own performance measures to monitor its effectiveness and efficiency.

A few major themes have emerged in defining what performance measurement is:

- a) It can show what is being accomplished
- b) It can show how effectively and efficiently it was done
- c) What is being measured will be affected by the users such as the public, which would likely focus on performance measures demonstrating accountability

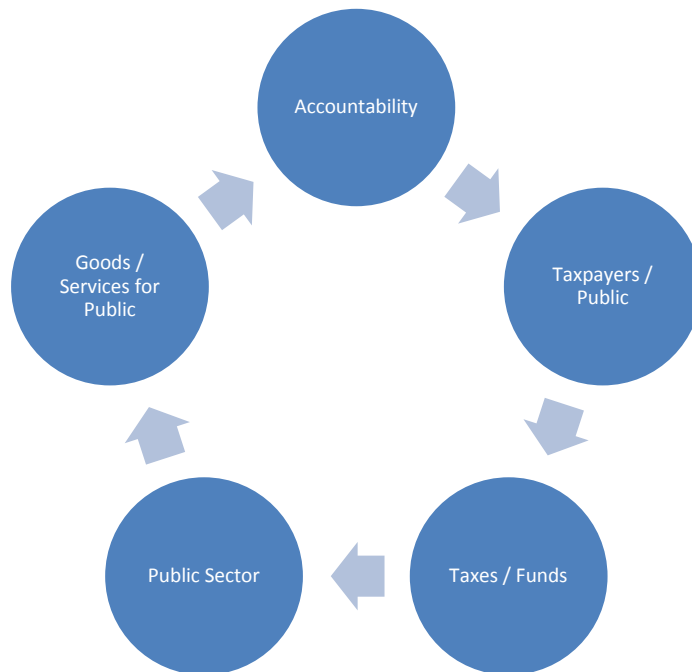
An additional concept was made by the IIA that was not mentioned by the other authors was that internal auditors can aid organizations in performance measurement, but also need to conduct their own performance measurement.

3.3 Why Use Performance Measurement?

In reviewing various performance measurement models presented by the IIA, CICA, IFAC, OAG, and scholarly sources, there are numerous similarities or themes that arise for reasons why organizations use performance measurement.

Public sector organizations often use public taxpayers' funds as the main resource for carrying out their goals and objectives. These goals and objectives are typically linked to providing goods and services for those same taxpayers. This relationship is illustrated in Figure 2.

Figure 2 - Accountability - Public Sector / Taxpayers



Based on the figure above, accountability means that the public sector needs to demonstrate to the public that their taxes are going towards the fulfillment of goods and services as planned. If the goods and services are not being provided or not being provided at an adequate level, then the public sector would need to suffer the consequences such as the standing government not being re-elected. In some countries, the government is required to be accountable and report on performance to the public and relevant stakeholders. In BC, the public sector, which includes BCLC, is required by the *Budget Transparency and Accountability Act* (Government of BC, 2011) to report to the public and their stakeholders. Items that are reported annually would include budgets, economic forecasts and strategic plans and priorities. By August 31st of each year, annual reports are provided to the public comparing

actual results to expected results outlined in the strategic plans and priorities. In addition, quarterly reports would be issued that would include actual results compared to the budgets and forecasts.

In contrast, for internal audit departments including AS, the use of accountability frameworks and performance measures are still maturing. They are not required, through statutory requirements, to report through performance measures like government ministries and crown corporations in BC are. Internal audit departments are typically small departments within government ministries and crown corporations so would not usually be included in strategic plans and priorities results reporting. This would hold true for AS within BCLC, while BCLC is required to report strategic plans and results annually, it would never get to the level of detail of the activities and performance measures of AS. In 2009, a current state assessment of accountability and performance measurement was done by the IIA conducting a survey of internal auditors in Austin, Texas. The results of the survey showed some of the potential effects of not having internal audit performance measurement as a part of regulatory requirements:

...the use of performance measures is still not universal among internal audit functions. Further analysis of the survey also showed that performance measures are being reported to executive management, large audit departments are more likely to use performance measures, the most commonly used performance measures are related to audit quality, very few financial efficiency measures are being used...(IIA Austin, 2009, p.1)

In another study conducted by Soh and Martinov-Bennie (2011, p.618), the findings suggest that internal audit has not developed performance measures adequately enough to match their roles resulting in stakeholders' expectations not being fully met. This could potentially be another effect of internal audit departments not being under stricter regulatory requirements for performance reporting.

Without regulatory requirements forcing internal audit to develop, improve and use performance measures, there are concerns about the lack of motivation or incentives for organizations to develop a performance measurement framework. Despite the lack of formal incentives or requirements, many internal audit units have developed or are in the midst of developing or improving their performance measurement frameworks. Rupsys and Boguslauskas (2007, p.14) concluded that through an internet survey that performance measurement of internal auditing activities are important among key stakeholders such as the audit committee, CEOs, senior management and the external auditors. Similarly, in a study conducted by Nagy and Cenker (2002, p.136), they found that internal audit directors felt strongly that internal audit activities were aligning with audit committee expectations. Another force adding to this pressure is the downturn in the economy, which has caused many executives and boards to look at additional ways to handle risk management and increase performance and internal audit is viewed as an opportunity to do this. PwC argues:

The bursting of the asset bubble, combined with the meltdown of the economy, resulted in the loss of \$50 trillion in global wealth from all-time market highs. Meanwhile, economists predict a prolonged period of slow growth, continued volatility, and constrained consumer spending. Additionally, the downturn has revealed blind spots resulting from a tunnel-vision approach to governance and risk management, which threatened not just growth, but also business survival. The resulting public outcry and regulatory response has led boards of directors and chief executive officers (CEOs) to search for ways to upgrade risk management. Many are also challenging internal audit to raise its game. (PwC, 2009, p.3)

Nagy and Cenker (2002, p.136) noted challenges in this opportunity for risk assessment by internal audit in that they found that there was a lack of coordination among the internal audit and risk assessment departments in the companies studied. However, they also found that internal audit departments were capable enough with an adequate level of expertise to carry out the risk assessment work.

From a public sector and internal audit perspective, informed decision making appears to be a benefit of performance measurement. Parker (2000) agreed with this reasoning mentioned that performance measurement is done to “ensure decisions are based on fact, not on supposition, emotion or faith or intuition” (Parker, 2000, p.63). When performance measurement is used to assess whether actions are going according to plans then there is an opportunity for better decision making. For example, if a public sector organization planned at the beginning of the year to plant 1,000 trees per month and after the first month only 500 trees were planted as assessed by the organization’s performance measurement, then a problem has been identified. Management can then determine what the cause of the performance gap is. Depending on the cause of the gap, management then has the opportunity to change its plans to address the performance gap or to prepare and inform stakeholders if the gap cannot be filled. This benefit of informed decision making is only possible if the performance measurement system delivers timely information. The CICA (2011, p.6) notes “for performance information to be relevant, it must be timely. The usefulness of performance information declines as time elapses, and therefore, performance information would be provided in time to be of value in assessing performance and decisions (CICA, 2011, p.6). Touching back on the trees planted example, if the performance measurement system reported that only 500 trees were being planted per month a few months after the first month, then it might be too late for management to make to revise expectations or change plans to increase output to meet initial expectations.

Another way performance measurement aids in informed decision making is by helping “organizations better gauge themselves relative to how well others in their sector are doing attaining similar goals” (OAG, 2010, p.2). This is also known as benchmarking and it can be a very powerful tool if implemented properly. One major challenge to benchmarking is consistency of the information being

compared. No two internal audit departments or public sector organizations will be entirely the same. They will each have a different set of goals and methods of carrying out those goals. This report will not go into further depth about benchmarking, but acknowledges it can be an effective tool for performance measurement if the organization is willing to invest in the resources to fine tune it and ensure its consistency and reliability for use.

3.4 How to do Performance Measurement

The IIA, CICA, IFAC and OAG each take a different approach to performance measurement; however, it is interesting that there are some similarities in why and how organizations use performance measurement. Similarly, in scholarly sources, a number of themes and similarities emerged and align in some ways with the major audit bodies noted above such as the ability of performance measures to show relevance or value and the consideration of capacity when developing performance measures.

3.4.1 Relevance/Adding Value

To whom are the performance measures being relevant or adding value to? This question is asked in different ways, but the core of what it is trying to do remains. Tangen (2005, p. 46-47) researched performance measurement over the past 20 years to identify a systematic way to identify the requirements that a performance measurement system should fulfill. Through his research, he noted that through time the scope of to whom the measures were being relevant or adding value changed. In the 1990s, it was noted that performance measures should be easily understood by its performers and evaluators. Also, he noted that the performance measures should be aligned with corporate goals. In more recent studies, the scope of stakeholders widened to include not only investors but employees, customers and suppliers.

Public sector and internal audit departments have sometimes in the past operated on their own initiative without considering the question: To whom are the performance measures being relevant or adding value to? Traditional internal audit departments have not necessarily focused on relevance or adding value in determining its audit plan specific to stakeholders. Instead they would focus on what they were accustomed to auditing such as compliance with regulations, various management and organization controls or strictly financial results (Rupsys and Boguslauskas, 2007, p. 9). However, as it was touched on earlier, the global environment and the growing competitive nature of organizations is causing key stakeholders such as the public taxpayers, Board of Directors, executive management, other levels of management and regulatory bodies to be more interested in what is being accomplished. Another component of this changing global environment is the increasing of performance measurement pressures from the aftermath of corporate scandals (Soh and Martinov-Bennie, 2011, p. 605).

If public sector organizations and internal audit departments insist on operating without considering these growing concerns, then they risk becoming irrelevant and potentially cut-off from funding and existence. The OAG fully recognizes these growing concerns and accordingly frames its entire model on performance measures around relevancy and key performance indicators (KPIs). Its models stresses that relevant KPIs have these five main characteristics:

1. Relate to the organization's purpose and priorities;
2. Link with the organization's activities;
3. Include widely used benchmarks, where appropriate; and
4. Are meaningful and useful to the organization's key internal and external stakeholders. (OAG, 2010, p.2)

For characteristics 1, 2 and 5, performance measures will be very relevant to the organization and internal and external stakeholders. While focusing on relevance and adding value is important for performance measurement, the OAG does not discuss in-depth other areas of focus that are discussed in the other 3 models, for example, internal growth and capacity. In a study by Mihret and Woldeyohannis (2008, p. 567), they noted that internal audit is indeed shifting from its traditional compliance focus and moving towards a value-added approach.

3.4.2 Capacity

The scholarly sources reviewed in this report did not specifically discuss internal audit capacity for performance measurement, but Tangen (2005, p.53) did suggest separating the questions "What to measure?" and "How to measure it?" would help in facilitating the design of the performance measurement system.

The CICA defines capacity as:

...the ability of the entity to achieve its intended results, including both financial and non-financial resources available to deliver its activities. This includes matters such as having the appropriate authority, human resources (personnel), financial resources (funding/tax base) and infrastructure (including both technological and physical capital) to carry on operations... (CICA, 2011, p.10)

This consideration is especially important for internal audit departments as many consist of only a handful of people and some only consist of one person. If the internal audit department has only one or two people, the cost of doing performance measurement should be questioned and carefully considered before undertaking. The IFAC also noted this concept in an example: "if the costs of reporting service performance information are considered to be greater than the benefits that the information may provide to users, this may supersede the need to report service performance information" (IFAC, 2011, p.22-23). Before an internal audit department embarks on implementing a performance measurement system, it should consider its capacity and whether its benefits will be greater than its costs.

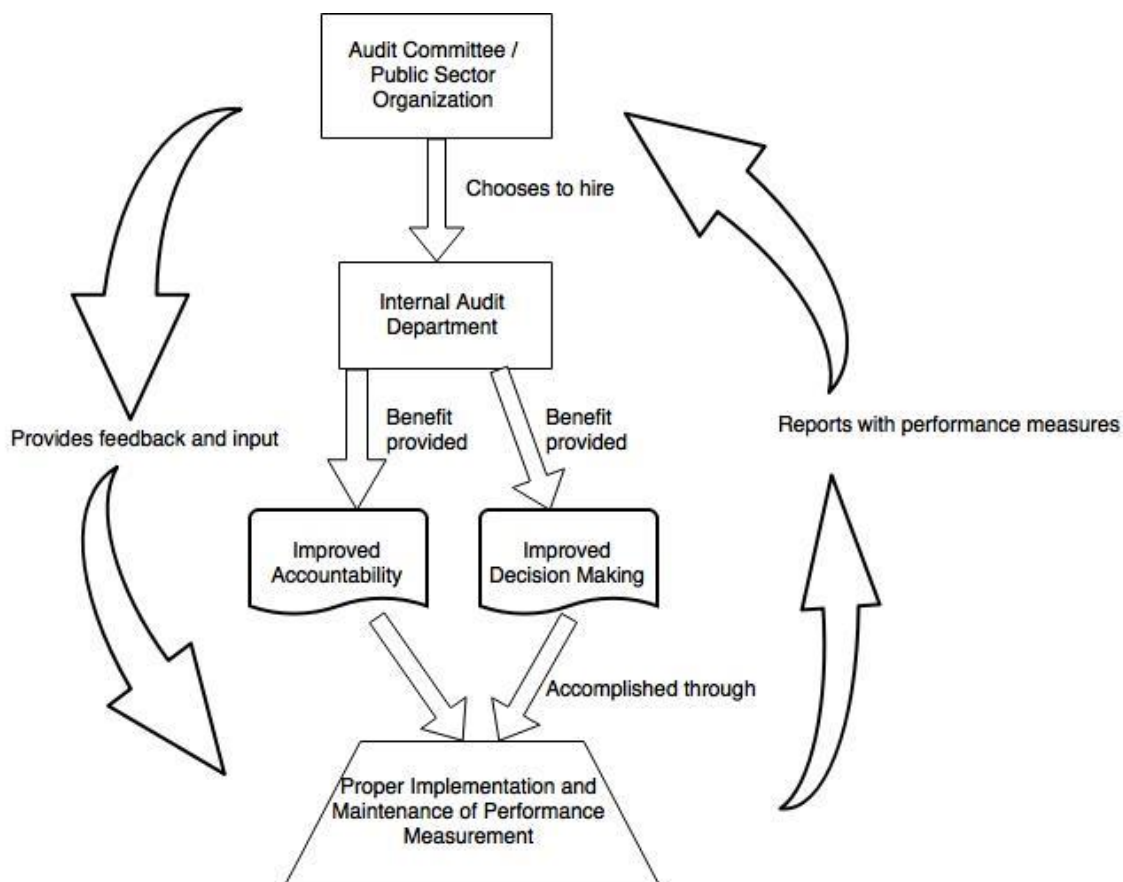
3.6 Conceptual Framework

Internal audit departments in the public sector are not required to have performance measures; instead, public sector organizations and crown corporations choose to have them because of the potential benefits that they can bring. One major benefit of internal audit departments is that they can help improve accountability at all levels in an organization. Another major benefit would be improved

decision making especially at the audit committee or senior management level of the organization given the services and information provided to them by the internal audit department.

One decision that is vital to internal audit is whether or not an organization wants to have an internal audit department or not. By reporting effective and relevant performance measures on the organization and internal audit itself, internal audit can show its value and make that decision an easy one. The audit committee or senior management of the organization will also provide feedback and input to internal audit which makes a continual feedback loop (See Figure 3).

Figure 3: Internal Audit in Public Sector Conceptual Framework



3.7 Literature Review Summary

There are varying views of what performance measurement is; however, there are a few major themes that emerged as mentioned earlier in this report.

- a) It can show what is being accomplished
- a) It can show how effectively and efficiently it was done

- b) What is being measured will be affected by the users such as the public which would likely focus on performance measures demonstrating accountability

Performance measurement is used by public sector organizations because they are required to use and report them to the highest levels of government and the public. Internal audit is not required to use performance measures; however, their existence is not mandatory through regulation so it is prudent for internal audit departments to show their value. One way that they can show value is by using performance measures on itself and the rest of the organization and report them to the audit committee and/or senior management.

There are a number of methods and theories of how to develop, implement and maintain an effective, relevant performance measurement program. This area of practice is not regulated so different professional bodies have taken attempts to present their own models which draw on similar and different research at the same time.

4.0 Findings: Analyzing the Models

- Criterion 1: Value or effectiveness is clearly shown to the audit committee
- Criterion 2: Key stakeholders are adequately involved
- Criterion 3: Ease of implementation and maintenance

Four professional bodies (IIA, OAG, CICA and IFAC) were analyzed to see how well each addressed the above criteria as requested by AS. Comparative analysis was also performed to determine: if AS's choices in criteria were appropriate; if the four chosen bodies selected were appropriate; or insights into the current state of performance measures with respect to public sector and internal audit can be drawn.

4.1 IIA Model Analysis

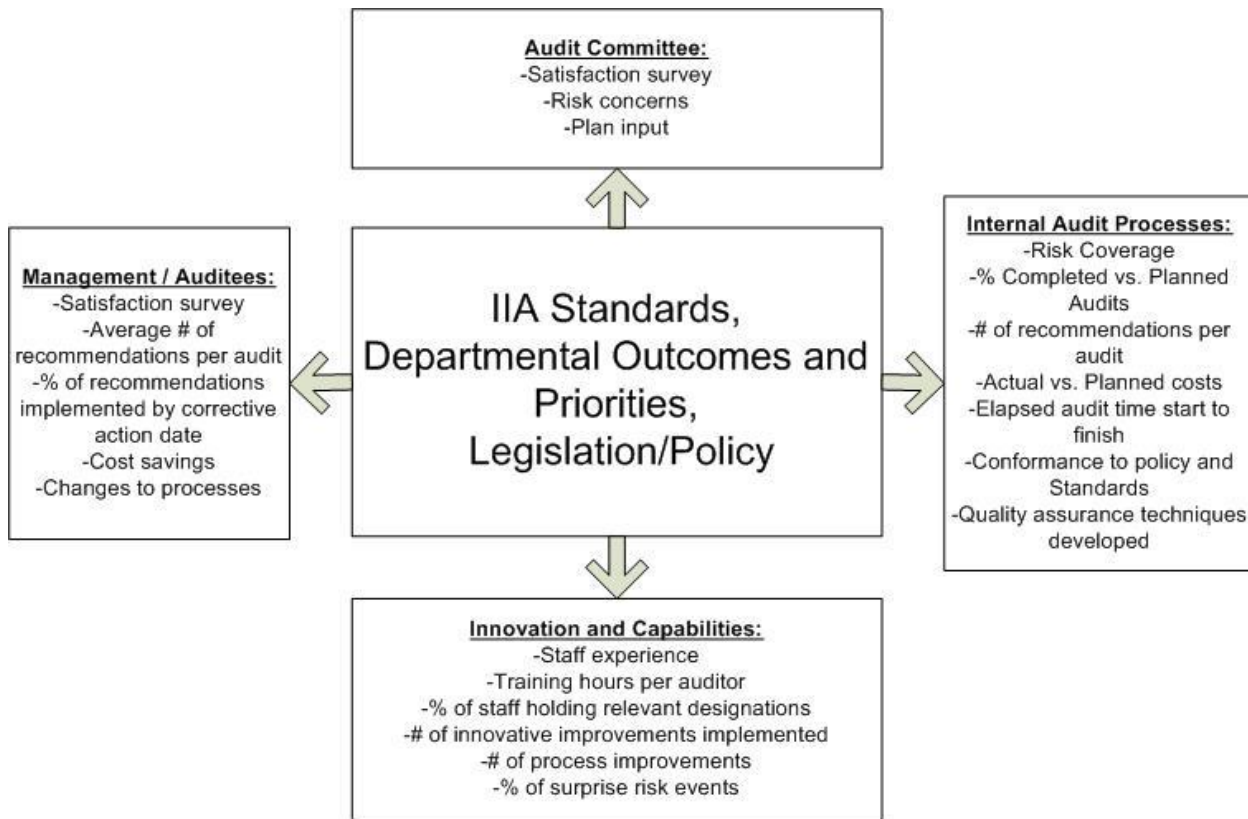
The IIA's Measuring Internal Audit Effectiveness and Efficiency (2010, pg1) states that their "practice guide provides guidance to internal audit activities on measuring their effectiveness and efficiency and the level of customer service they provide to stakeholders."

To encourage the use of performance measures in internal audit, the guide states the following about performance measures for internal audit:

Establishing performance measures is critical in determining if an audit activity is meeting its goals and objectives, consistent with the highest quality practices and standards. This practice guide provides guidance to internal audit activities on measuring their effectiveness and efficiency and the level of customer service they provide to stakeholders. (IIA, 2010, p.1)

This model borrows concepts from balanced scorecard approaches, specifically from an IIA report, *A Balanced Scorecard Framework for Internal Auditing Departments*, published in 2002 by Frigo. It categorizes performance metrics along the dimensions, interests, and perspectives of a variety of key stakeholders and each perspective would include related measures (See Figure 3).

Figure 4 - Categories of Performance Metrics for Internal Auditing



Source: Adapted from Measuring Internal Audit Effectiveness and Efficiency, IIA 2010.

- Criterion 1: Value or effectiveness is clearly shown to the audit committee

The IIA model identifies the audit committee as a key internal stakeholder and includes it as one of the main branches of focus in internal audit performance metrics as seen in Figure 4. The audit committee would provide its risk concerns and input into the internal audit annual action plan. This process would include ensuring that the audit committee understands its own role and the role of internal audit. This part of the consultation is mainly going from the audit committee to internal audit, the IIA model though provides internal audit tools and suggestions as to performance measures that it can recommend to the audit committee. The IIA model provides both qualitative and quantitative performance measures that are suggested for internal audit adoption. Quantitative measures are highlighted in Figure 4 and may include the number of audits performed, cost savings identified, the average number of recommendations implemented per audit and others. An example of qualitative measures would be satisfaction surveys to auditees, management and the audit committee. It appears that the IIA model's approach to ensuring the demonstration by internal audit to the audit committee of its value and effectiveness is fairly adequate as it addresses both sides coming to an agreement of what is to be measured and how it is to be done.

- Criterion 2: Key stakeholders are adequately involved

One of the IIA model's steps is to identify key internal and external stakeholders and then determine through analysis or feedback their interest in the internal audit's function work. An example of this process was discussed earlier in the analysis of Criterion 1 with respect to the audit committee. The IIA model (IIA, 2010, p.3) provides examples of who the internal and external stakeholders may include. It also discusses factors that internal audit should consider when identifying key stakeholders and the types of feedback it should be seeking.

Once the key stakeholders are identified having them adequately involved is the next objective. For example, one of the key internal stakeholders is internal audit staff, if they have been engaged as intended then they will know and have agreed upon a number of qualitative and quantitative performance measures. To have them adequately involved the next stage would be to have regular reporting and monitoring of these measures. The IIA model (IIA, 2010, p.7) discusses that this monitoring and reporting involves including content, type of reporting, frequency and format. It appears that the IIA model's approach to ensure that key stakeholders are adequately involved provides enough resources and information for internal audit groups to adopt effectively.

- Criterion 3: Ease of implementation and maintenance

The ease of implementation will depend on how difficult it is to understand what is required to be done by the model and also how much effort is required by internal audit to implement. The IIA model provides guidance, examples and recommendations as to how to implement it; however, much work would still be required by internal audit to compose the step by step tasks to be completed to actually implement.

For maintenance of the model, it requires ongoing tracking and reporting of performance measures as well as ongoing consultation with key stakeholders. Since the model covers many difference aspects of internal audit activity, development and results as seen in Figure 4, this ongoing work will require a fair amount of resources and effort to be effective.

4.2 Model Analysis

The CICA through its Statement of Recommended Practice (SORP) provides general guidance for governments and government entities on reporting performance information (CICA, 2006, p.1). SORP's main objective for performance reporting is communicating that the goals or objectives have been achieved or not and at what cost.

- Criterion 1: Value or effectiveness is clearly shown to the audit committee

SORP does not mention the audit committee specifically, but it does mention that performance reporting provides the "main vehicle by which the entity and its responsible elected officials discharge

their accountability to all elected officials and the public they represent” (CICA, 2006, p.3). This accountability relationship is similar to the relationship audit committees have with their respective organizations. SORP does not detail a consultation feedback loop with stakeholders to set its goals, instead it details that strategic priorities are based on the entity’s mandate. These strategic priorities would then be used to determine specific goals. This approach may be effective for internal audit in situations where the audit committee is only concerned with high strategic level goals of the overall entity being achieved; however, this does not mean that internal audit had a direct impact on those results. For example, if the entity’s performance goal is to break even financially and internal audit reports that this goal has been met, it does not tell specifically to the audit committee whether internal audit had a positive or negative impact on reaching that goal. It appears that this top down only approach for reporting to the audit committee will not suffice in showing it the true value or effectiveness of internal audit.

- Criterion 2: Key stakeholders are adequately involved

SORP does not detail a key stakeholder identifying and consultation process. If key stakeholders are not identified then it is very unlikely that they will be adequately involved.

- Criterion 3: Ease of implementation and maintenance

As discussed earlier, this model could potentially result in internal audit being successful in the eyes of the audit committee and the rest of the entity without actually doing any specific work. This could also mean that the implementation and maintenance of this model for internal audit could be very easy and little to no resources required.

4.3 IFAC Model Analysis

The IFAC performance model is tailored to government entities reporting performance information to “(a)...their users (recipients of services and their representatives, and the providers of resources and their representatives) and (b) to provide information that is useful for the decision-making purposes of those users.”(IFAC, 2011,p.6). The IFAC model aims to use a principles-based approach that can be used by all government entities for reporting performance information and that meets the needs of its users.

- Criterion 1: Value or effectiveness is clearly shown to the audit committee

IFAC’s Reporting Service Performance Information (RSPI) does not discuss reporting to audit committees specifically instead it emphasizes that information needs to be useful for accountability and decision making (IFAC, 2013, p.11). It also notes that the service performance information should enable users to assess the entities in the following manner:

- a) Service delivery activities and achievements during the reporting period;
- b) Financial results in the context of its achievement of service deliver objectives; and

- a) Efficiency and effectiveness of the entity's service delivery.

Qualitative characteristics of the service performance information would include that the information is relevant, faithfully represented, understandable, timely, comparable and verifiably (IFAC, 2013, p.11-12). RSPI also touches on the concept of materiality which it describes information being material if it could “influence of the discharge of accountability of the entity, or the decisions that users make on the basis of the entity's reported service performance information prepared for that reporting period.”

The principles and concepts presented in IFAC's RSPI for providing performance information to users appear to be well constructed and would address concerns by an audit committee if adopted.

- Criterion 2: Key stakeholders are adequately involved

If an entity or internal audit department were to follow the guidance provided in how to provide service performance information then the users might be adequately involved; however, IFAC does not specifically go into detail for guidance in directly engaging with key stakeholders. This could cause an internal audit department like AS to run the risk of providing performance measures and information that are not valuable to its key stakeholders i.e. the audit committee.

- Criterion 3: Ease of implementation and maintenance

IFAC's RSPI provides overall guidance as to what service performance information should include and consider; however, it does not provide detailed guidance as to how to implement and maintain it.

4.4 OAG Model Analysis

The OAG produced the Guide for Developing Relevant Key Performance Indicators for Public Sector Reporting in December 2010. It ascertains that relevant key performance indicators (KPIs) are vital to effective public sector performance reporting and public accountability for public sector organizations that are subject to the reporting requirements of the *Budget Transparency and Accountability Act*. The guide defines a relevant KPI as something that provides information that is “significant and useful to the reporting organization's stakeholders and is attributable to its activities. The KPIs should demonstrate the reporting organization's overall performance and, as such, should be used to hold the reporting organization accountable.”

- Criterion 1: Value or effectiveness is clearly shown to the audit committee

The OAG's guide does not specifically address how value or effectiveness is shown to audit committees as its main purpose is to help public sector organizations report to their stakeholders through the use of KPIs. Using the guide's definition of KPIs mentioned above, an internal audit department could use KPIs to show its value or effectiveness to its audit committee. The guide spends most of its content to explain how an organization can develop relevant KPIs and if done correctly should address the needs or concerns of its key stakeholders.

- Criterion 2: Key stakeholders are adequately involved

Step 5 of developing relevant KPIs of the OAG’s guide details steps to ensure key stakeholders are clearly identified and adequately consulted. It also aims to ensure that the KPIs reflect aspects considered significant by key stakeholders and that key stakeholders use the KPIs and consider them to be meaningfully presented.

- Criterion 3: Ease of implementation and maintenance

As mentioned earlier, the OAG’s guide goes into detail as to how an organization can develop relevant KPIs; however, it is still at a generic level of detail and does not tailor its approaches for internal audit departments. A fair level of customization would need to be done for an internal audit department to effectively implement and maintain the OAG’s model.

4.5 Findings Summary

Four models (IIA, CICA, IFAC and OAG) were analyzed using three criteria:

- Criterion 1: Value or effectiveness is clearly shown to the audit committee
- Criterion 2: Key stakeholders are adequately involved
- Criterion 3: Ease of implementation and maintenance

The table in Figure 5 below summarizes the similarities and differences between the four models and the three criteria.

Figure 5: Comparison of Four Models

| | Criterion 1 – value or effectiveness shown to audit committee | Criterion 2 – key stakeholders adequately involved | Criterion 3 – ease of implementation and maintenance |
|------|---|--|--|
| IIA | Yes, the IIA model identifies the audit committee as a key internal stakeholder. | Identifies key internal and external stakeholders and then determines through analysis or feedback their interest in the internal audit’s function work. | Provides guidance, examples and recommendations as to how to implement it, but will require customization to use. |
| CICA | Does not identify audit committee specifically, strategic priorities and goals are based on the entity’s mandate. This approach may be effective for internal | Does not detail key stakeholders identifying and consultation process, so unlikely adequately involved. | Performance measures linked to high level strategic goals, potentially internal audit does not implement anything but still be viewed as |

| | | | |
|------|--|---|--|
| | audit in situations where the audit committee is only concerned with high strategic level goals of the overall entity being achieved | | successful which would be very easy. |
| IFAC | Does not discuss reporting to audit committees specifically instead it emphasizes that information needs to be useful for accountability and decision making. | Does not specifically go into detail for guidance in directly engaging with key stakeholders. | Provides overall guidance as to what service performance information should include and consider; however, it does not provide detailed guidance as to how to implement and maintain it. |
| OAG | Does not specifically address how value or effectiveness is shown to audit committees as its main purpose is to help public sector organizations report to their stakeholders through the use of KPIs. | Details steps to ensure key stakeholders are clearly identified and adequately consulted. | Details as to how an organization can develop relevant KPIs; however, it is still at a generic level of detail and does not tailor its approaches for internal audit departments. |

As outlined in the chart, each of the models have their strengths and weaknesses depending on an internal audit department's organization's needs of the audit committee and/or senior management different aspects may be useful for adoption from different models. The IIA model is clearly the most directed towards internal audit departments in general i.e. not necessarily in the public sector; however, customizations would still be required to implement as it covers many areas. It may not be realistic or desired for an internal audit department to implement the entire model. The CICA model stresses measuring performance on high level strategic goals so would likely only be appropriate in situations where the audit committee and/or senior management are only concerned with reaching these goals. For the IFAC model, it reinforces the concept of accountability and improved decision making which an internal audit department could use to help form performance measures that meets those goals; however, the model does not go into great detail as to implementation only general concepts. The OAG model reinforces that key stakeholders should be identified and adequately consulted and details the development and use of KPIs to show value of a department or organization. As was the case with

the CICA model, an internal audit could potentially adopt this approach if it is sought after by the audit committee and/or senior management.

5.0 Findings: Smart Practices Scan and Current State Analysis

5.1 Introduction and Criteria

The previous chapter analyzed four models and discussed their strengths and weaknesses. With this knowledge and assessment in conjunction with the literature review performed, this chapter now highlights smart practices that Audit Services and similar internal audit departments that reside in the public sector can follow. As discussion of the smart practices is carried out, AS will be examined to determine what its current status is on each aspect.

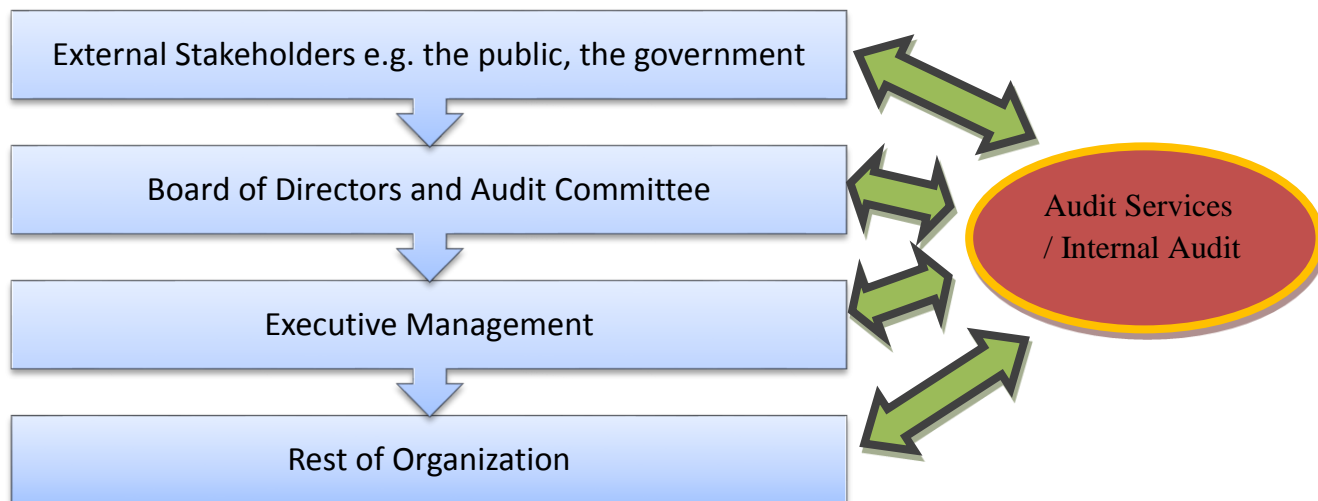
5.2 Smart Practice 1 – Location of Audit Services

The first step of the smart practices is to understand where internal audit departments resides or would like to reside in their respective organizations (See Figure 6) and then to determine the type of relationships it should have with key stakeholder groups as related to performance. Both the IIA and the OAG models stress the importance of this step. Internal audit does not typically directly report to external stakeholders, but should aim to have a relationship of coordination and cooperation where appropriate. For example, when an external regulator wants to audit the organization for compliance, internal audit may manage the relationship and the audit work to be performed.

For the Board of Directors and Audit Committee, internal audit should have a direct reporting relationship and be accountable to them. For Executive Management, internal audit should aim to have a relationship that maintains independence and objectivity while maintaining open communication channels and a professional work relationship. For the rest of the organization, internal audit does not have a direct reporting relationship to them, but should still build an effective working relationship with them. This report recognizes that internal audit departments also have to be accountable to the Institute of Internal Auditors standards if they wish to be identified as being in compliance with them. Since this compliance is not mandatory and by the choice of internal audit departments, this report will not be including performance measurements to maintain or achieve IIA standards.

Currently, AS does not formally document its internal and external stakeholders, conduct a stakeholder analysis or have a stakeholder management plan.

Figure 6 - Internal Audit's Stakeholders



5.3 Smart Practice 2 - Understanding Goals and Needs of Stakeholders

Both the IIA and OAG models emphasize the need for internal audit to understand the goals and needs of its stakeholders (See Figure 7) so that it can align its own goals with them to be relevant and to add value when appropriate. The goals and needs of its stakeholders should be formally documented and updated on a regular basis. This information will be found in various documents and also through interviews.

A recommended place to start is an organization's service plan in the BC government because it is a document from the organization addressed to its minister outlining its mandate, activities and its plans on how it will meet its mandate. In general terms, it will tell the reader what the organization has to do to be successful. If internal audit recognizes and understands these goals and then aligns its own goals with them then it will have a higher chance of being successful. See Figure 7, for an example of how AS could use BCLC's service plan to populate its goals and then allow for analysis to be done based on those goals in the "Needs" sections. This figure holds high level information for BCLC so further research and interviews would need to be conducted to get a more complete understanding of the key stakeholders' goals and needs. For example, an interview with executive management or the board of directors may reveal how they plan to achieve the goal of "creating a player-centric company".

Currently, AS does not formally document the goals and needs of each key stakeholder. AS only keeps discussion notes after meeting with key stakeholders.

Figure 7 - Goals and Needs of Stakeholders

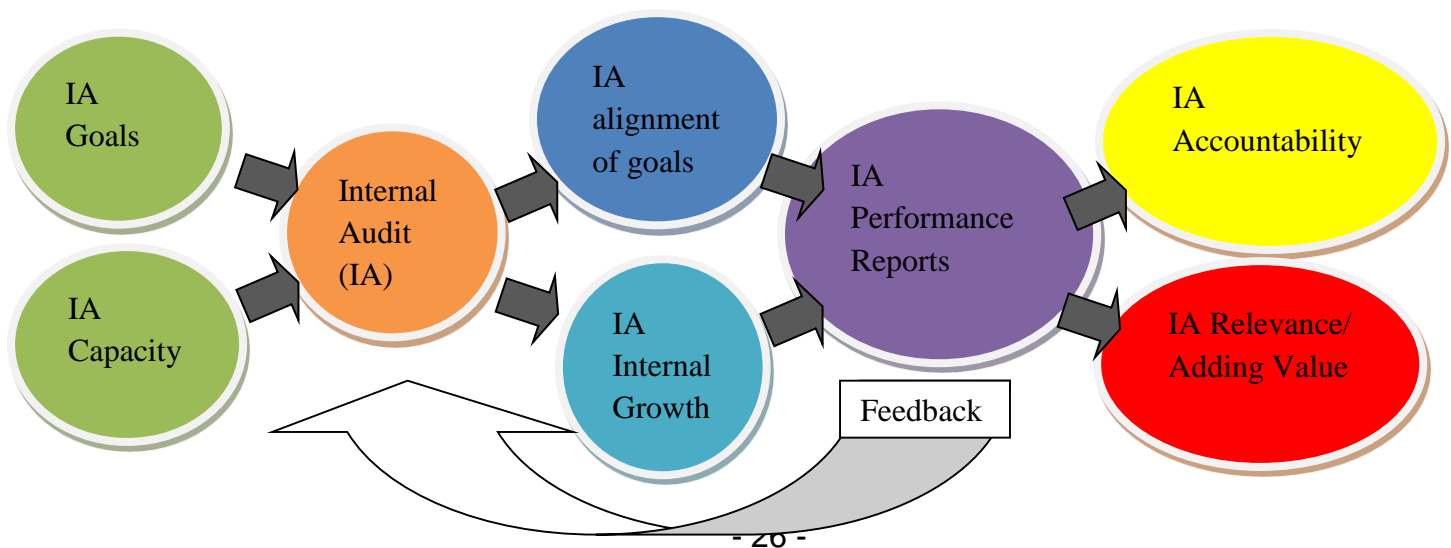
| External Stakeholders | Board of Directors and Audit Committee | Executive Management | Rest of Organization |
|---|---|---|---|
| <p>Goals:</p> <ul style="list-style-type: none"> Gain as much benefit from BCLC as possible <p>Needs:</p> <ul style="list-style-type: none"> Public reporting / Accountability Compliance with external regulations Fair gaming experience Responsible gaming experience | <p>Goals:</p> <ul style="list-style-type: none"> Demonstrate accountability to government and public Build public trust and support for BCLC gaming Create a player-centric company Invest in infrastructure and Technology to support current operations and future growth Have a workplace passionately driving the success of the business <p>Needs:</p> <ul style="list-style-type: none"> Adequate reporting to be confident goals are being met and in the appropriate manner | <p>Goals:</p> <ul style="list-style-type: none"> Demonstrate accountability to the Board and Audit Committee Build public trust and support for BCLC gaming Create a player-centric company Invest in infrastructure and Technology to support current operations and future growth Have a workplace passionately driving the success of the business <p>Needs:</p> <ul style="list-style-type: none"> Adequate reporting to be confident goals are being met and in the appropriate manner | <p>Goals:</p> <ul style="list-style-type: none"> Carry out direction from Executive Management Excel in individual goals such as career progression or higher pay <p>Needs:</p> <ul style="list-style-type: none"> Clear and achievable directions from Executive Management |

Source: Goals information from BCLC Service Plan, 2011, p.11

5.4 Smart Practice 3 - Develop IA Plan

IA needs to determine its goals and also what type of capacity it has to accomplish those goals. After developing this understanding, then IA can align its goals and capacity to its organization's and stakeholders' goals and needs to demonstrate its relevance or adding value and be accountable to create an IA plan. See Figure 8 for an illustration of this concept.

Figure 8- Internal Audit Performance Model



The IA plan should outline what it plans to accomplish for the year, why activities were chosen and how they will be accomplished. Internal audit may have an idea or have some goals in mind to include in the plan before going through the alignment of goals with stakeholders. An example of this would be internal audit identifying an area of the organization that exhibits high risk of errors. It should be noted that this would still be examined for alignment of goals with key stakeholders. The overarching reason for IA goal setting is for reaching the end goals of showing IA relevance, adding value and accountability (See Figure 8).

5.4.1 Assess Internal Audit Capacity

As mentioned earlier, some internal audit departments may only consist of one person or a handful of people so analyzing capacity will help determine what the department sets as goals. The CICA recognized that capacity will limit how much can be done and IFAC noted that the benefits of doing something should be greater than its cost. Capacity should also not affect what needs to be done in terms of what work should be carried out for the best interests of the organization. For example, if it is determined that 50 audits need to be carried out in order for the organization to be compliant with various laws or regulations then if internal audit does not have the capacity then the work can be contracted to a third party and their performance can be managed by internal audit. Capacity will affect what type of performance measurement will be chosen though. Internal audit departments should have a good understanding of their capacity, see Figure 9 for a sample template for doing this formally in documentation.

Figure 9 - Internal Audit Capacity

| Staff | Time | Funds |
|--|---|--|
| <ul style="list-style-type: none"> • <u>Department has:</u> • 1 director • 2 managers • 2 seniors auditors • 4 junior auditors • 2 Chartered Accountants • 4 Certified General Accountants • 6 Certified Internal Auditors | <ul style="list-style-type: none"> • <u>Hours Capacity:</u> • 300 hours for review • 600 hours for supervision • 2000 hours for carrying out audit work | <ul style="list-style-type: none"> • <u>Funds Capacity:</u> • overall funding of \$1 million • Maximum to be spent on contractors \$100,000 • Maximum of \$50,000 on travel • Maximum of \$25,000 on training |

5.5 Smart Practice 4 – Align Internal Audit with Stakeholders

Internal audit departments can approach this alignment in steps that can be done concurrently or one after the other. One step is to first take the knowledge learned when carrying out the understanding of

the goals and needs of stakeholders illustrated in Figure 7 then do an alignment exercise for each stakeholder. This alignment exercise (see Figure 10) can be done by:

1. Listing the stakeholder’s strategic goals
2. Listing the stakeholder’s specific plans and initiatives relating to those strategic goals
3. Listing internal audit’s plans to align with those strategic goals

Figure 10 - Alignment with Stakeholders

| BCLC Strategic Goals | BCLC Specific Plans/Initiatives | AS Alignment with BCLC Goals | AS Specific Plans / Initiatives | | |
|---|--|---|---------------------------------|----------------|------------------------|
| | | | Year 1 | Year 2 | Year 3 |
| Build Public Trust and Support for BCLC Gambling | Start distribution marketing program aimed at building public trust and support. | AS to review plans, ensure it aligns with goals and complies with policies. | Review plans | Review results | Follow-up with results |
| Create a Player-Centric Company | | | | | |
| Invest in Infrastructure and Technology to Drive Innovation that Enables our Growth | | | | | |
| Have a Workforce Passionately Driving the Success of the Business | | | | | |

The other step involves analyzing performance measures and goals that the internal audit department already has in place to see if they are aligned with the key stakeholder needs and goals. See Figure 11 for an example of how this can be carried out.

Currently, AS does not carry out this analysis for its performance measures and goals.

Figure 11 - Analyze Existing Goals / Measures for Alignment

| Internal Audit Measure/Goal | Key Stakeholder | Applicable Stakeholder Goal | Applicable Stakeholder Need | Is there alignment? (yes/no), Explain | Further comments / Plans going forward |
|-----------------------------|-----------------|-----------------------------|-----------------------------|---------------------------------------|--|
| | | | | | |

| | | | | | |
|-------------------------------------|---------------------------|--|---------------------------|--|---|
| Report on status on risk management | Audit Committee and Board | Accountable that risk management being done properly | Assurance and information | Yes, it is common for internal audit to advise on risk management and it is one of the Audit Committee's and Board's more pressing needs | Ensure to discuss with Audit Committee and Board for feedback on their comfort level with risk management |
|-------------------------------------|---------------------------|--|---------------------------|--|---|

5.6 Smart Practice 5 - Set Goals and Track Internal Audit Internal Growth

Setting goals and tracking performance of internal growth is vital for internal audit departments. If they do not, they risk not improving performance through internal growth and potentially missing out on opportunities to add value. The IIA highlighted the need for tracking internal growth for performance measurement as a smart practice (See Figure 4). There are three main areas where internal audit should set goals and performance measures for internal growth:

1. People
2. Processes
3. Technology

5.6.1 Internal Growth - People

People refers to the staff that make up the internal audit department and includes management as well. This area of growth is the most important because most of the work and resources used by internal audit departments stem from their people. AS currently has a number of performance measures for their staff that provide good examples of what can be done by other internal audit departments. The three main areas to cover with people performance measures are:

1. Individual performance
2. Individual training
3. Individual development

Individual Performance

Each fiscal year, all employees at AS are required to complete a “myPerformance” assessment (See Appendix B). This form was made by BCLC’s human resources department and it allows verbal and written discussions to occur to form performance measures for the staff. The form consists of the following sections:

1. **My Job** – This section allows the employee to list job accomplishments and provides a comment area for the employee’s manager. It also provides an ‘Overall Ratings’ section to be filled out by the employee’s manager.
2. **Assessment** – This section allows the employee and employee’s manager to assess the employee in different areas including: behaviours; products and service delivery; business solutions; business planning & decision making; relationship management; and leadership and development

Another individual performance measure is the Individual Time Utilization Schedule (See Appendix C). This schedule is created from employee timesheets on a monthly basis. The objective of the schedule is to report to the Audit Committee overall AS results of where efforts are focused, measured against plan as approved in Annual Audit Plan and to provide analysis for any variances. AS managers will monitor individual and team results of time efforts on a monthly basis and will discuss variances with employees and the AS director as needed.

Individual Training

The Individual Training Schedule captures summary information on training as it relates to hours, cost and dates on a fiscal year basis. Information is used by AS management to monitor costs and hours against budget. Additionally, information can be used by individuals to verify professional development requirements for various designations (See Appendix D for a sample).

Measuring what and how much training is done by staff is important for internal audit departments to be in compliance with the International Professional Practices Framework Standards that requires internal audit to be professionally competent and qualified to carry out its work. It will also help facilitate and encourage staff to take part in training and development activities. As mentioned earlier, internal audit departments do not have to be in compliance with the Standards if they choose not to be associated with them. This is likely to occur in smaller organizations and/or where the senior management of the organization do not require or demand that the internal audit department be in compliance with the Standards.

Individual Development

This Individual Development Plan form (see Appendix E) was designed to help each AS employee to align their career goals with the goals of AS. This exercise may result in some negative results; for example, an audit senior has the career goal of becoming an audit manager, but the department has no plans for another audit manager position. This can result in the employee having low morale and looking for opportunities outside of the department. On the other hand, this exercise should yield positive results as well and should outweigh the negative. It is a similar situation to the goal and measures alignment discussed earlier between internal audit and key stakeholders. The end result or goal is to have relevant work performed that adds value. A positive result example for individual development would be a junior auditor wants to specialize in information security but did not tell anyone until he/she was asked in this exercise. It was also determined in the internal audit goals

exercise that the department wants to be proficient in information security audits. As a result, an alignment of goals can take place and all parties benefit including other key stakeholders.

5.6.2 Internal Growth – Processes

For the purpose of this report, processes refer to the policies and procedures for the internal audit department. This includes the policies and procedures for conducting audits. The amount of effort expended in the area of growth in processes will depend on an internal audit’s capacity and its goals i.e. leading best practices and competitive cultures.

An initial step in undertaking performance measurement for this area is to start tracking the number of process improvements by individual and then by the department. The next step would be analyse the process improvements and determine how much of an impact they had. The final step includes determining who this information should be reported to and how. At the least, this information should be reviewed by internal audit management. It might also be beneficial to report this information in an appropriate manner to key stakeholders such as the Audit Committee. See Figure 12 for an example template for these performance measures.

Currently, AS does not have performance measures for internal growth through processes.

Figure 3 - Internal Growth through Process Improvement

| Process before improvement | Process After Improvement | Who improved this process? And when? | What is the impact of this improvement? |
|---|--|--------------------------------------|--|
| No tracking of when follow-up was required on results of audits | Tracking schedule made and maintained, internal audit now formally knows when it should be following up with results from audits | Senior Auditor A / August 2011 | It ensures internal audit fulfills its responsibilities and improves reputation among stakeholders for following up with results |

5.6.3 Internal Growth – Technology

Internal audit departments are able to operate without the use of various technologies (i.e. specialized machinery or software); however, the use of certain types of technology can help increase internal audit performance. Some of the most prominent examples include using data analyzing software to aid in audit engagements and using video conferencing technology to save time and travel costs. The use of performance measures for technology provides opportunities for future improvements or demonstrates how it adds value (see Figure 13 for an example template).

Currently, AS takes advantage of various technologies to improve performance, but does not track their performance.

Figure 4 - Internal Growth through Technology

| Process before Technology | Process after Technology | Description of improvement | Applicable performance metric | |
|--|--|------------------------------|--|--|
| | | | Before | After |
| e.g. Process A involved manually adding totals to verify accuracy. | Process A now involves receiving the information electronically. | Auditor ABC / September 2011 | This improvement has saved 4 hours of work per week by a junior auditor. Process A took 5 hours before improvement and 1 hour after improvement. | e.g. Process A involved manually adding totals to verify accuracy. |

5.7 Smart Practice 6 - Internal Audit Performance Reports

There is not one correct way to create effective and relevant performance reports; however, there are better practices that an organization can follow. The reporting and tracking templates discussed earlier smart practices can all be used for either reporting or for base information for higher level reporting. The goals and needs information of key stakeholders and the internal audit department can be used to help determine what type of reporting is needed. For example, if the audit committee prefers the use of KPIs then internal audit should strongly consider using KPIs as the basis for determining its performance measures and reports. Tailoring to the needs of the key stakeholders will ensure that the objective of being relevant or adding value is being taken into consideration when determining performance reporting needs.

Currently, AS reports to the Audit Committee quarterly on how its annual audit plan is progressing and any significant issues that have arisen. It gathers this information through the use of the Project Completion Tracking Schedule (See Appendix F) which aims to accomplish three goals:

- a. To measure actual time against planned time for individual projects, providing AS management with information on the general effectiveness of audit work compared to plan
- b. To monitor overall estimated completeness of Annual Audit Plan against plan to help with any decisions required to adjust original plan
- c. To provide management information regarding overall time effectiveness which is accomplished by management reviewing the report on a monthly basis and quarterly with the AS director

These schedules effectively help manage performance measures over project time and individual utilization times and aligns with smart practices adopted by the IIA.

AS also reports significant staff updates such as a team member obtaining a relevant auditing designation. Internally, AS makes these reports available to staff which have been discussed earlier in this report: Education Tracking, and Time Capture Utilization.

5.8 Smart Practice 7 - Internal Audit Feedback

The IIA and OAG emphasize that feedback is important for any performance measurement model; if users are not getting the information or value they need, that message needs to be communicated to management. There are various methods for obtaining feedback: casual discussion, formal interview and survey. Each internal audit department will be at varying levels of involvement and relations with their key stakeholders so there will not be one standard template for all feedback. However, obtaining feedback should be related to organization needs and goals and the theme of being relevant and adding value should be adhered to in the organization.

Currently, AS obtains various types of feedback from different stakeholders. AS obtains mainly verbal feedback from BCLC management, Board of Directors and Audit Committee. AS also has satisfaction survey templates for the Audit Committee, Executive Management and auditees (See Appendix G for sample of auditee survey). The survey template has recently been updated as the last version was from 2006 and current formal surveys have not been completed for the Audit Committee or Executive Management. AS does have current completed survey results for auditees though. AS receives feedback from staff verbally and also formally through a survey given by BCLC human resources each year.

6.0 DISCUSSION AND ANALYSIS

This report's main research question is: What is the best performance measurement framework for government internal audit departments and more specifically for AS? To investigate this question, this report analyzed performance measurement models via a primary document analysis from four major auditing bodies: the Canadian Institute of Chartered Accountants (CICA), the Institute of Internal Auditors (IIA), the International Federation of Accountants (IFAC) and the Office of the Auditor General of British Columbia (OAG) and identified the strengths and weaknesses of each model. Through a literature review, a comparative analysis was also conducted using scholarly sources that focused on performance measurement for internal auditing in the public sector.

After considering Audit Services' current performance measurement system, its work environment and stakeholder expectations, it was determined that it would be best to develop a separate performance measurement model for Audit Services to follow and not choose an existing model although the model was built on aspects of other models. It was also determined that there is not one best performance measurement framework for government internal audit departments. Government internal audit departments are not mandatory by any regulation or law so their existence or the extent of their existence will be decided upon by senior management. This means that a successful internal audit department will likely be showing its value or relevance in the eyes of senior management or in some cases the audit committee of the board of directors. What is valuable or relevant will change from one person or group to the next so it makes it difficult to recommend one existing performance measurement framework over another.

Another factor that makes it difficult to choose one best framework is that internal audit departments are not required by regulation or law to follow a specific set of standards. For example, IIA standards are only recommended for internal audit departments but the same could be said about IFAC standards or OAG standards.

Different expectations from senior management or audit committee, different operating standards available that are all optional and on top of that the sizes and capacities of internal audit departments can vary greatly, all these factors point to not being able to recommend one performance measurement framework as the best one to choose. This report determined that the best framework would be to have a customized framework that utilizes smart practices from the major models and scholarly sources while taking into account what the key stakeholders are really looking for and care about. An effective performance measurement framework could be simple if the key stakeholders only care about one objective for internal audit, for example, to be compliant with a specific regulation. An effective performance measurement framework could also be quite complex if the key stakeholders need to justify internal audit's existence and budget.

Looking at each of the models in isolation, they each provide a good attempt at providing performance frameworks that an internal audit could try to implement and be successful. For some, all of the aspects of the framework they choose might be effective and for others, some aspects might work and

some might not. The benefit for internal audit departments though is that they could try to identify which performance measurement framework might fit their needs best and choose that one. The internal audit departments would then not need to spend extra effort in customizing their own framework. The disadvantage of this is that potentially they could choose a framework that does not fully work as intended and the key stakeholders did not see internal audit's value or relevance.

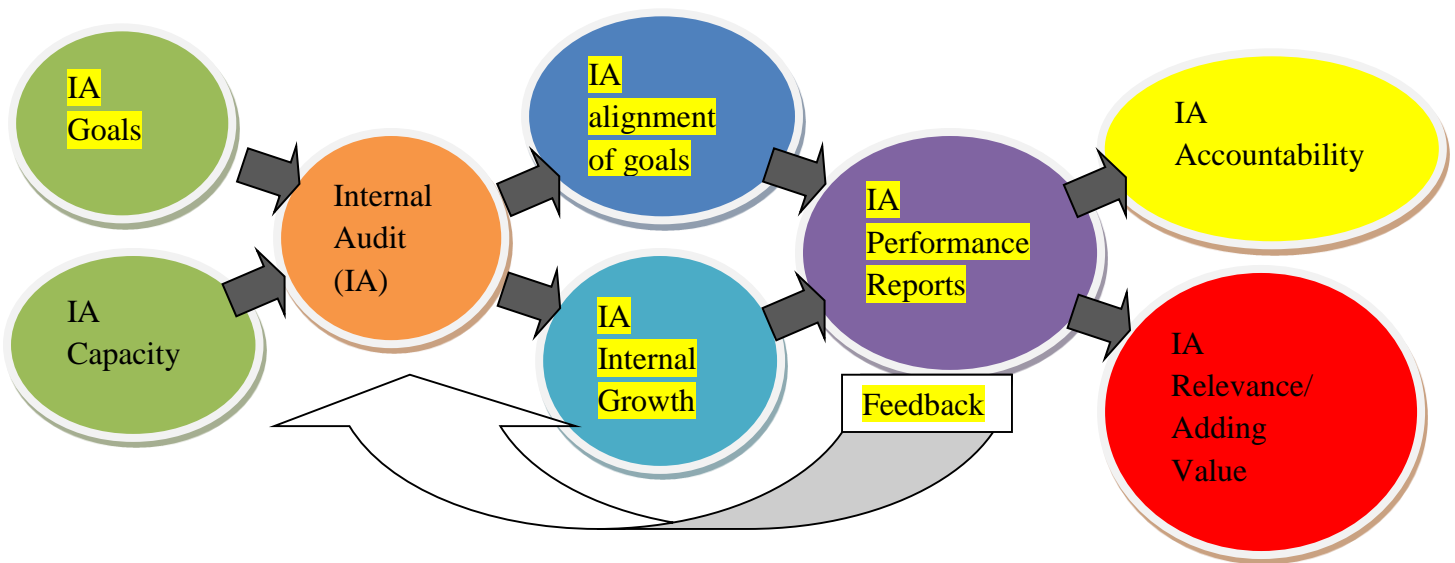
It should be noted that the conclusions reached by this report are limited by breadth of research performed. There are more performance measurement frameworks than the 4 examined and there are many more relevant scholarly sources that have not been looked into.

Looking to the future, one area that would be useful for future research would be to develop methods or tools for internal audit departments to be able to easily identify what type of performance measurement framework would work best. Another area to look into would be whether or not there should be mandatory performance measurement frameworks imposed onto government internal audit departments.

7.0 RECOMMENDATIONS

The previous sections of this report analyzed different performance measurement concepts and smart practices to develop the best performance measurement framework specifically for AS. The outcome of that analysis is the introduction of the Audit Services Performance Model (ASPM) framework. See Figure 14 for the ASPM overview illustrating in red font and yellow highlights the areas where AS could use improvement and meet the requirements of the ASPM. This section of the report will provide AS recommendations on how it can adopt the ASPM and reach its goal of having an effective and efficient performance measurement system.

Figure 5 - AS and the ASPM



7.1 Recommendation #1: Develop and Adopt the Audit Services Performance Model Framework

The first two bubbles on the left of Figure 14 is where the ASPM begins, IA Goals and IA Capacity. For IA Goals, these are goals that IA thinks it needs to achieve based on its expertise. An example of an IA goal could be for IA to complete 20 audits within 12 months. For IA Capacity, AS would understand its resources limitations for completing IA work, this would include items such as the number of staff available, staff skillsets and experience, and money allotted to the department. AS would take into account its capacity while setting its goals. Recommendation #2 will discuss further on the IA Alignment of Goals bubble. For IA Internal Growth, it relates to AS capacity and how it can develop it further. As noted below, AS currently has a number of performance measurement reports that track and facilitate the progress on the growth of capacity.

AS currently utilizes a number of different mechanisms for performance measurement and they each fit into one of the categories of the ASPM:

1. Project Completion Tracking Schedule (IA Capacity)
2. BCLC myPerformance (IA Internal Growth)
3. Individual Development Plan (IA Internal Growth)
4. Education Tracking (IA Internal Growth)
5. Time Capture Utilization (IA Internal Growth)
6. Quarterly Report to Audit Committee (IA Performance Reports)
7. Auditee Surveys (Feedback)

The recommendations provided in this report will focus on initial steps to be taken by AS for gaps between what AS is currently doing and what the ASPM outlines. It should be noted that the final two bubbles in Figure 14 of IA Accountability and IA Relevance and Adding Value are the desired end results of successfully implementing and maintaining the ASPM.

7.2 Recommendation #2: Identify Relevant Stakeholders and Understand Goals and Needs of Stakeholders

AS has not formally conducted an exercise to identify its relevant stakeholders and documented it. It is recommended that AS carry out this exercise as it may reveal stakeholders that are unknown to them and also it is beneficial for staff and even the stakeholders themselves to see that AS has this formal understanding. Audit Services can begin by completing the template in Figure 15 as it will aid in stakeholder identification while taking into account important consideration factors. Possible internal stakeholders may include: the BCLC Board of Directors, Audit Committee, BCLC senior or executive management, operational or support management and AS itself. Possible external stakeholders may include: external auditors, third-party customers, third party vendors and regulatory bodies.

Figure 6 - Considerations in Identifying Relevant Stakeholders

| Consideration Factors | Stakeholders Identified | Comment / Notes to Follow-up |
|---|-------------------------|------------------------------|
| Consider the extent of regulation on BCLC. (i.e. The Ministry's Gaming Policy and Enforcement Branch) | | |
| Consider AS's relationship with key internal and external stakeholders and establishment of function expectations and objectives with these groups. | | |
| Consider the authority and relevancy of the stakeholder to AS activity. | | |
| Consider the nature of BCLC (i.e. Crown Corporation) | | |

| | | |
|---|--|--|
| Consider the types of engagements performed by AS activity. | | |
| Consider specific stakeholders identified within the AS activity's charter. | | |
| Consider applicable content of BCLC's board of director's charter. | | |

Source: Adapted from IIA 2010, Measuring Internal Audit Effectiveness and Efficiency.

Currently, AS does not formally document the goals and needs of each key stakeholder. AS only keeps discussion notes after meeting with key stakeholders. It is recommended that AS formally document the goals and needs of each key stakeholder identified from Recommendation #2. AS can start this exercise with the template in Figure 7. Determining the goals and needs of each stakeholder can be done by reviewing documentation, for example, if the stakeholder is the vice-president of division A then reviewing documentation about that division's goals and plans will help. Interviews are also a powerful tool to use in finding this information and are highly recommended by the ASPM.

7.3 Recommendation #3: Alignment of Goals with Objectives, Strategies, Performance Measures

One of the major components of the ASPM is to formally analyze and track the alignment of goals between the internal audit department and key stakeholders. Currently, AS does not perform this type of analysis or maintain this type of information tracking. It is recommended that AS formally document how its goals align with the goals of its key stakeholders. Templates to accomplish this can be found in Figures 10 and 11.

7.4 Recommendation #4: Develop and Monitor Internal Audit Performance Reporting

Currently, AS reports to the Audit Committee quarterly on how its annual audit plan is progressing and any significant issues that have arisen. AS also reports on time utilization and significant staff updates such as a team member obtaining a relevant auditing designation. Internally, AS makes these reports available to staff, which have been discussed earlier in this report: Project Completion Tracking Schedule, Education Tracking, and Time Capture Utilization. Once AS does recommendations #2 and 3 then it will have a better understanding of its key stakeholders and their goals and needs. Afterwards, AS can then align their own goals to them and ultimately their performance measurement reporting which is shown in Figure 14 by the purple bubble IA Performance Reports. This may result in these existing reports may need to be altered. It is recommended that AS report to the Audit Committee that

it has adopted the ASPM as a performance measurement system and share its progress in meeting the requirements of the ASPM.

7.5 Recommendation #5: Develop Evaluation Framework

AS obtains mainly verbal feedback from BCLC management, Board of Directors and Audit Committee and it recently updated its auditee survey templates. It is recommended that AS continue to conduct formal feedback with these key stakeholders on a regular basis. A slightly more in depth survey should be considered and a sample of what kind of feedback can be solicited from these stakeholders can be found in Figure 16. This survey would help AS determine whether the expectations of the business are being met by the audit. In the ASPM Figure 14, it shows that the feedback obtained will loop back into the revising of IA goals. This signifies a continual improvement cycle which should result in the model working better after each loop.

Figure 7 - Internal and External Stakeholder Sample Feedback Template

| Questions or Communications to Stakeholder | Feedback / Response / Follow-up Questions |
|---|---|
| Explain the purpose and responsibility of AS. | |
| Ask for feedback on the adequacy of AS independence and objectivity. | |
| Explain AS’s target deliverables and expectations of AS activity. | |
| Discuss current or planned business priorities and correlation of those with AS activity’s scope. | |
| Ask for feedback on any shortcomings of AS activity. | |
| Ask for feedback on quality and sufficiency of communications from AS. | |
| Ask for feedback on current level of satisfaction, or lack thereof, with the frequency and nature of engagements planned and performed. | |
| Ask for feedback on current level of satisfaction with AS activity’s resources. | |
| Ask for feedback on changing needs of business, related risks, and ability of AS to provide assurance and consulting services. | |

Source: Adapted from IIA 2010, Measuring Internal Audit Effectiveness and Efficiency.

8.0 CONCLUSION

Having an effective performance measurement system is important for internal audit departments, but can be difficult to implement due to lack of expertise and lack of resources (e.g., time, money).

However, the resources invested in identifying, developing, monitoring and reporting on efficient and effective performance measures will enable AS to progress in its development and performance. As well, since AS is not a mandatory department in BCLC, it is important that its key stakeholders (i.e., Audit Committee and executive management) are able to see and understand the relevancy and value that AS is bringing to BCLC.

The area of expertise in implementing and maintaining an efficient and effective performance measurement system in internal audit departments is still not mature. This provides AS an opportunity to be a leader in the field by successfully implementing the ASPM and sharing with other internal audit departments' guidance and examples of success.

The ASPM is still new, but it is based on the strengths of other well formulated models from prominent organizations such as the IIA, OAG, CICA and IFAC and the study of internal audit performance measurement scholarly literature. It is expected and welcomed that the ASPM will continue to evolve and grow as these other organizations also mature and change their models as well as scholarly literature continuing to grow in this specific area of performance measurement. It is in the best interest of all stakeholders that different performance measurement models continue to learn and improve from collaboration.

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APPENDICES

APPENDIX A – AS Charter

1.0 INTRODUCTION

This Charter formally defines the purpose, authority and responsibility of the Audit Services (“AS”) department, and is aligned to the Institute of Internal Auditor’s (“The IIA”) definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing (“Standards”). The Charter serves as a formal, written agreement with management and the Audit Committee on BCLC’s internal audit activity.

2.0 MISSION AND OBJECTIVES OF WORK

2.1 The mission of AS is to provide independent, objective assurance and consulting services designed to add value and improve BCLC’s operations. AS assists BCLC achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

2.2 The objectives of work of the AS department is to provide assurance to management and the Audit Committee on whether BCLC’s network of risk management, internal control, and governance processes, as designed and represented by management, are adequate and functioning in a manner that:

2.2.1 Risks are appropriately identified and managed.

2.2.2 Interaction with the various governance groups occurs as needed.

2.2.3 Significant financial, managerial, and operating information is accurate, reliable, and timely.

2.2.4 Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations.

2.2.5 Resources are acquired economically, used efficiently, and adequately protected.

2.2.6 Programs, plans, and objectives are achieved.

2.2.7 Quality and continuous improvement are fostered in BCLC’s internal control processes.

2.2.8 Significant legislative or regulatory issues impacting BCLC are recognized and addressed appropriately.

2.2.9 Opportunities for improving management internal controls, profitability, and BCLC’s image are identified and communicated to the appropriate level of management and the Audit Committee, as appropriate.

3.0 AUTHORITY AND INDEPENDENCE

3.1 The AS Director and staff are authorized to:

3.1.1 Have unrestricted access to all BCLC information, including functions, records, property, and personnel relevant to the performance of audits and the audit role.

3.1.2 Have full and free access to the Audit Committee.

- 3.1.3** Allocate the resources of the AS, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives as set out in the approved annual audit plan.
- 3.1.4** Obtain the necessary and timely assistance of personnel within BCLC departments where audits are performed, as well as other specialized services from within or outside BCLC in order to effectively execute the annual audit plan.
- 3.2** Information accessed in the course of audits is used strictly for auditing purposes. The AS Director and staff are responsible for maintaining the confidentiality of the information they receive.
 - 3.3** To provide for the independence of the AS department, the AS Director reports functionally to the Audit Committee and administratively to the President & Chief Executive Officer (“CEO”).
- 3.4** Without express approval from the Audit Committee, the AS Director and staff are not authorized to:
 - 3.4.1** Develop or implement systems or procedures, and/or perform any operational duties for BCLC or its affiliates.
 - 3.4.2** Initiate or approve accounting transactions external to AS.
- 3.4.3** Direct the activities of any BCLC employee not employed by AS, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

4.0 RESPONSIBILITY AND SCOPE

- 4.1** The AS Director and staff of the AS department have the responsibility and scope to:
 - 4.1.1** Develop a flexible Annual Audit Plan (“AAP”) to be approved by the Audit Committee.
 - 4.1.1.1** The AAP will be prepared using risk information obtained from BCLC’s Enterprise Risk Management (“ERM”) department, and in consultation with senior management to help ensure alignment of the AAP with strategic risks and key objectives of BCLC’s business.
 - 4.1.1.2** The Audit Committee will review and approve the AAP annually. Any significant changes that may be required to the AAP will be submitted to the committee for consideration and approval on a quarterly basis.
 - 4.1.2** Consider the scope of work of all external auditors and regulators for the purpose of developing Audit Services AAP.
 - 4.1.3** Implement the AAP, as approved by the Audit Committee, including, as appropriate and within the confines of this mandate, any special tasks or projects requested by management or the Audit Committee.
 - 4.1.4** Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
 - 4.1.5** Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

- 4.1.6** Communicate to management and any other relevant parties at the conclusion of each audit the audit findings, recommendations and management action plans.
- 4.1.7** Follow up on outstanding management action plans to ensure significant risks and major deficiencies identified are effectively addressed and remediated by management within the mutually agreed timeframe.
- 4.1.8** Issue quarterly reports to management and the Audit Committee summarizing significant results of all audit activities of BCLC.
- 4.1.9** Provide reporting of significant AS measurement goals and results to the Audit Committee.
- 4.1.10** Assist in the investigation of significant suspected fraudulent activities within BCLC and notify management and the Audit Committee of the results.
- 4.1.11** Serve as a resource to the organization in identifying the need for and characteristics of adequate systems of internal control.
- 4.1.12** Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- 4.1.13** Review this Charter on an annual basis and present any recommended updates to the Audit Committee for approval.
- 4.1.14** Assist the Audit Committee in any other way in connection with the discharge of its duties and responsibilities.

5.0 ACCOUNTABILITY

5.1 The AS department shall be accountable to management and the Audit Committee to:

- 5.1.1** Provide regular assessments on the adequacy and effectiveness of BCLC's processes for controlling its activities and managing its risks in the areas set forth under the mission and objectives of work.
- 5.1.2** Report regularly on significant issues related to the processes for controlling the activities of BCLC and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- 5.1.3** Provide regular information on the status and results of the AAP and the sufficiency of department resources.
- 5.1.4** Coordinate with other control and monitoring functions as appropriate (e.g. risk management, compliance, security, legal, ethics, environmental, and external audit).

6.0 STANDARDS OF AUDIT PRACTICE

6.1 The AS department is guided by BCLC’s Standards for Ethical Business Conduct. Its audit activities are carried out in accordance with the AS policy and procedures and will meet or exceed the Standards issued by the IIA.

6.2 The AS Director will establish and maintain a Quality Assurance and Improvement Program to evaluate the operations of the AS department. An internal and external quality assurance review shall be performed every 5 years.

6.2.1 The AS Director must communicate the results of the external and periodic internal assessments to management and the Audit Committee.

7.0 LIAISON WITH EXTERNAL AUDITOR, GAMING POLICY ENFORCEMENT BRANCH (“GPE”) AND OTHER INTERNAL AND THIRD-PARTY AUDITORS

7.1 The AS Director will work proactively with the external statutory financial statement auditor and regulatory agency to determine areas where assistance and direct audit comfort can be provided by the AS department. The AS Director will meet with the external statutory financial statement auditor and regulatory agency regularly to discuss the internal and external audit plans and to share knowledge of issues arising. These meetings will ensure that the roles of the audit functions are coordinated to avoid duplication.

7.2 From time to time, BCLC may require external audits or reviews, in addition to the statutory external audit of the organization’s financial statements, to advise or provide assurance to the organization on matters requiring specific expertise and experience, such as consultative engagements, fraud investigations, complex information technology testing, process analysis, compliance issues, and employment or pension matters. AS will monitor engagements of third party external audit service providers (other than the external financial audit) for the purpose of assisting the Audit Committee in reviewing all significant findings. All final external audit reports of this nature will be forwarded immediately upon completion to the AS department to be included in BCLC’s central repository.

7.3 AS will follow up on outstanding recommendations to ensure that management agreed upon resolutions are implemented within the mutually agreed timeframe.

8.0 REVIEW OF CHARTER

8.1 This charter will be reviewed and approved annually, in alignment with the Audit Committee Terms of Reference to ensure an appropriate level of cost-effective, value-added internal audit service is provided to BCLC.

Audit Committee Chair President & CEO

Director Audit Services

| | | | | | | | | | | | | | | |
|------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| Reporting to Audit Committee | | | | | | | | | | | | | | |
|------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | | | | | |
|--|---|---|--|---|---|--|---|---|--|---|---|--|---|
| Review Charter of Audit Services and provide for approval | | | | | ✓ | | | | | | | | |
| Prepare and present Annual Audit Plan (AAP) for review and approval | | | | | ✓ | | | | | | | | |
| Discuss any restrictions or problems | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |
| Director meets with Audit Chair prior to Audit Committee meeting | ✓ | | | ✓ | | | ✓ | | | ✓ | | | ✓ |
| Prepare and present quarterly audit report and any significant changes to AAP | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |
| Director meets with Audit Committee without management present | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |
| Prepare and present summary findings and management action plans of all third party external audit service providers that were not provided to the Audit Committee | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |
| In coordination with ERM and management, report on the risk management, internal control, information systems and anti-fraud program | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |
| Review and confirm Audit Services' overall compliance with its charter | | ✓ | | | ✓ | | | ✓ | | | ✓ | | |

| | | | | | | | | | | | | | |
|--|--|--|--|--|---|--|--|--|--|--|--|--|--|
| Review organization and independence of Audit Services | | | | | ✓ | | | | | | | | |
|--|--|--|--|--|---|--|--|--|--|--|--|--|--|

| | | | | | | | | | | | | | |
|--|---|---|--|---|--|---|---|--|--|---|---|--|---|
| Reporting to Executive | | | | | | | | | | | | | |
| Review Charter of Audit Services and provide for approval | | | | ✓ | | | | | | | | | |
| Prepare and present Annual Audit Plan (AAP) for review and approval | | | | ✓ | | | | | | | | | |
| Prepare and present quarterly audit report and any significant changes to AAP | | | | ✓ | | | ✓ | | | ✓ | | | ✓ |
| Prepare and present summary findings and management action plans of all third party external audit service providers | | | | ✓ | | | ✓ | | | ✓ | | | ✓ |
| In coordination with ERM report on anti-fraud program | | | | ✓ | | | ✓ | | | ✓ | | | ✓ |
| In coordination with ERM and management report on the risk management, internal control and information systems | | | | ✓ | | | ✓ | | | ✓ | | | ✓ |
| Prepare and present annual business plan and budget | | | | | | | | | | | ✓ | | |
| External Audit Service Providers | | | | | | | | | | | | | |
| Meet with External Financial Auditors | ✓ | ✓ | | | | ✓ | | | | ✓ | | | |
| Meet with GPE | ✓ | | | ✓ | | | | | | ✓ | | | |

APPENDIX B – myPerformance Sample

My Job

Behaviours

| | Under- Performing | Developing | Accomplishing | Exceeding | Outstanding |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Actively listens to the player/customer. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Demonstrates the ability to link daily tasks to the value of the customer. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Quickly and effectively solves player/customer concerns. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Seeks to go beyond what the player/customer requests. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Save

Products and Service Delivery

| | Under- Performing | Developing | Accomplishing | Exceeding | Outstanding |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Manages projects efficiently. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Thoroughly understand the needs of their customer before assessing what action to take. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Understands the importance of compliance to standards, policies and procedures. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Save

Business Solutions

Under- Developing Accomplishing Exceeding Outstanding

| | Performing | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Uses his/her own judgment and available resources to appropriately resolve issues. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Forward-thinking, creative and innovative when providing business solutions. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Adjusts quickly to shifting priorities and adapt to change. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Supports and implement innovative ideas and approaches. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Contributes suggestions and ideas to the team. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Save

Business Planning & Decision Making

| | Under- Performing | Developing | Accomplishing | Exceeding | Outstanding |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Appropriate level of judgment and authority exhibited with respect to financial resources. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Appropriate level of judgment and authority exhibited with respect to people and technical/operational resources. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Save

Relationship Management

| | Under- Performing | Developing | Accomplishing | Exceeding | Outstanding |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Communicates effectively. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Actively listens to the player/customer and respond to their needs. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Solves player/customer concerns effectively and efficiently. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Address or deal with adversity/ conflict in a professional manner. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Open honest communication style. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Save

Leadership and Development

| | Under- Performing | Developing | Accomplishing | Exceeding | Outstanding |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Takes ownership of his/her own personal development. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Identifies individual performance improvement opportunities and take | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

action to improve.

Resourceful in overcoming challenges to deliver on daily responsibilities.

Seeks opportunities to grow, learn, and be challenged.

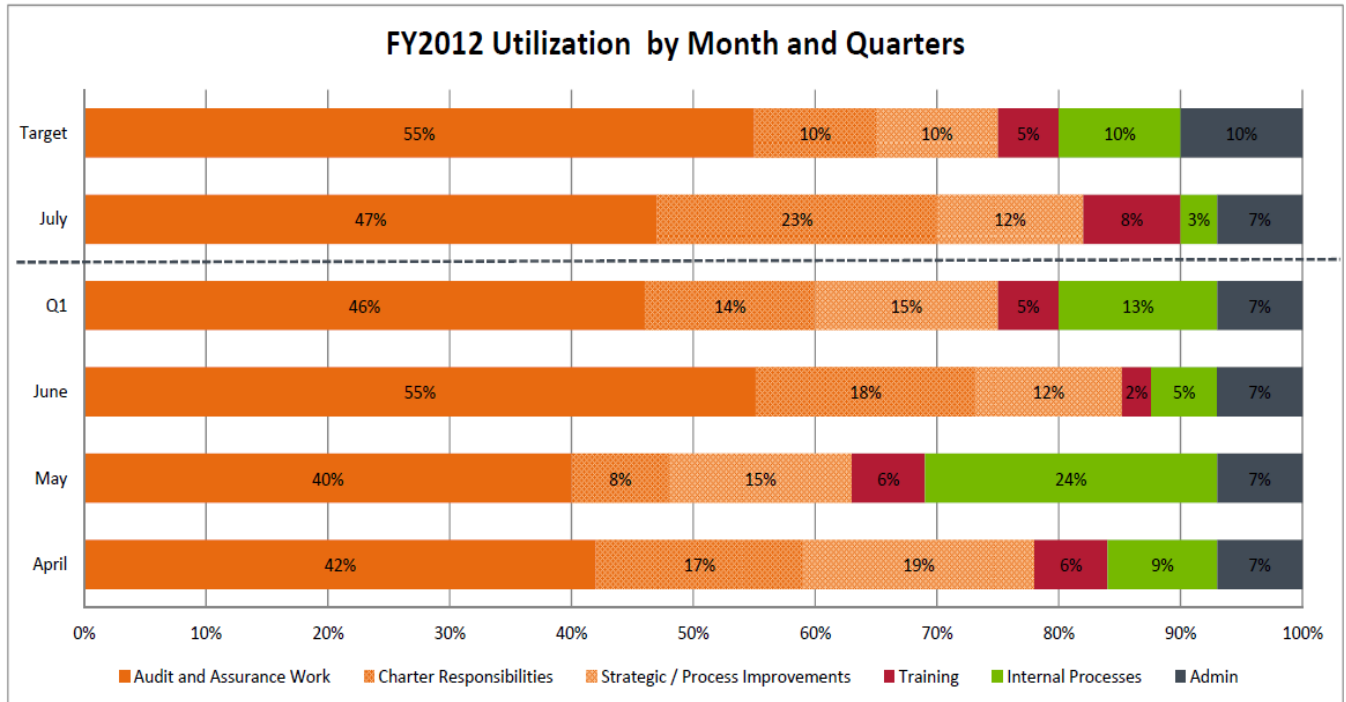
Supports the growth of others.

Save

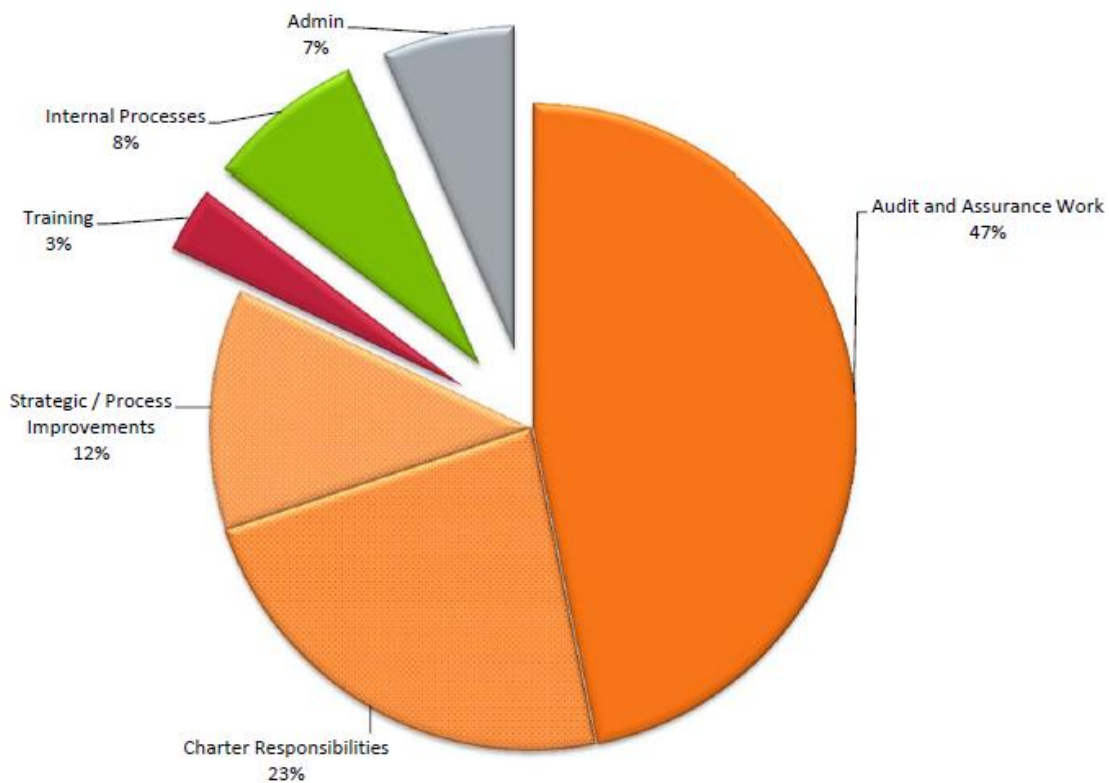
Manager's Comments

- no comments -

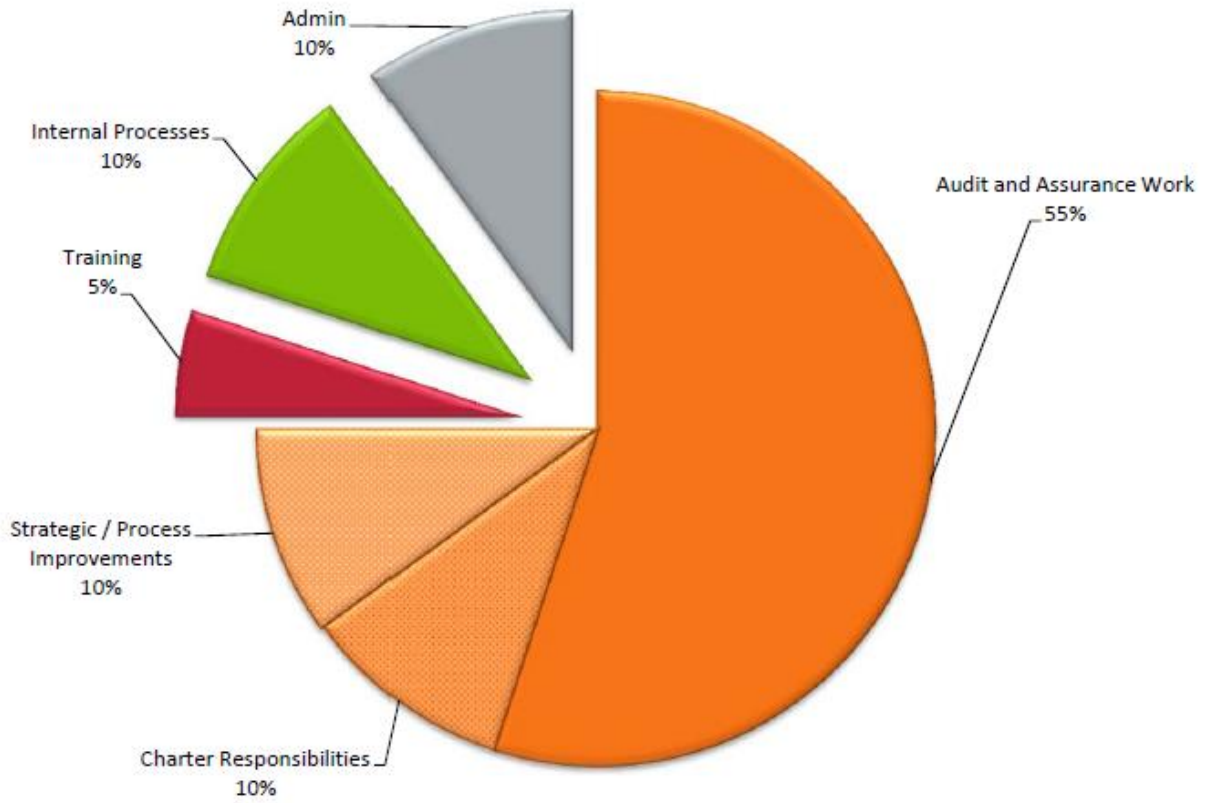
APPENDIX C – Time Capture Utilization



FY2012 - July Actual Utilization



FY2012 - Targets (as per AAP)



APPENDIX D – Individual Training

| Name | Course | Offered by | Budget (Hours) | Verifiable CPE Credits | Non-Verifiable Hours | Total Actual Hours | % Attained (Hours) | Course Dates | Completion Date | Costs (pd prior fiscal) | Planned costs current fiscal | Costs Paid current fiscal | \$ Budget current fiscal | % Against \$Budget | Balance Available for current fiscal |
|------------------------|--|---------------|----------------|------------------------|----------------------|--------------------|--------------------|-------------------------|-----------------|-------------------------|------------------------------|---------------------------|--------------------------|--------------------|--------------------------------------|
| Current fiscal totals | | | 70 | 0.0 | 0.0 | 0.0 | 0% | 0.0 | | \$0 | | \$0 | \$2,035 | 0% | \$2,035 |
| Employee#1 | | | | | | | | | | | | | | | |
| | CISA Exam Prep | ISACA | | 10.0 | 40.0 | 50.0 | | Mr 15-Dec 31 | 31-Dec-11 | \$643 | | \$0 | | | |
| | CIA Designation Exam part 2,3, | IIA | | 6.0 | 70.0 | 76.0 | | May 31-Jun 30 | 30-Jun-11 | \$465 | | \$0 | | | |
| | Risk Assessment Workshops - Reaching Consensus | IIA Vancouver | | 5.0 | | 5.0 | | 17-May-2011 | 17-May-11 | \$0 | | \$0 | | | |
| | CISA Exam | ISACA | | 5.0 | | 5.0 | | 1-Dec-11 | | | | \$380 | | | |
| | Masters - education sponsorship | | | | 120.0 | 120.0 | | Sep-11 | | \$2,000 | | | | | |
| | PMP Exam Prep | PMI | | | 40.0 | 40.0 | | | | | \$300 | | | | |
| | PMP Exam | PMI | | 4.0 | | 4.0 | | | | | \$400 | | | | |
| | | | | | | 0.0 | | | | | | | | | |
| | | | | | | 0.0 | | | | | | | | | |
| Sub-totals | | | | | | 0.0 | | | | \$3,108 | \$700 | \$380 | | | |
| Current fiscal totals | | | 70 | 30.0 | 270.0 | 300.0 | 429% | 300.0 | | | | \$1,080 | \$2,035 | 53% | \$955 |
| Employee#2 | | | | | | | | | | | | | | | |
| | Certified Information Privacy Professional / Information | IAPP | | 5.0 | 40.0 | 45.0 | | | | | | \$700 | | | |
| | Information Security & Risk Management Conference - | ISACA | | 18.0 | | 18.0 | | Sept 19/11 - Sept 21/11 | | | | \$1,579 | | | |
| | | | | | | 0.0 | | | | | | | | | |
| | | | | | | 0.0 | | | | | | | | | |
| Sub-totals | | | | | | 0.0 | | | | \$0 | \$0 | \$2,279 | | | |
| Current fiscal totals | | | 70 | 23.0 | 40.0 | 63.0 | 90% | 63.0 | | | | \$2,279 | \$2,035 | 112% | (\$244) |
| Totals for Team | | | 140.0 | 53.0 | 310.0 | 363.0 | 5.2 | 363.0 | 0.0 | 0.0 | 0.0 | 3,359.0 | 4,070.0 | 1.7 | 711.0 |
| Budget (for 11 FTEs) | | | \$50,000 | | | | | | | | | | | | |

*Note: Dollar amounts have been altered for confidentiality purposes.

APPENDIX E- Individual Development Plan

| | | | |
|---|--|--|-----------------------------------|
| Individual Development Plan (IDP) – Employee Name | | | |
| <p>Career goal/objective (at least one broad and one more specific)</p> | <p>Description (detail as to why/how this supports AS and/or BCLC)</p> | <p>Possible Options (Activities/Courses that would help you to achieve this)</p> | <p>Associations/Organizations</p> |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

APPENDIX F – Project Completion Tracking Schedules

Project Progress / Analysis

| Audit-related Projects | No. of Actual Days Worked (to date) | Original Plan No. of Days (per AAP) | Diff. Actual v. Plan per AAP (+/-) | % of AAP Time Used | Est. % of Project Complete | Est. Change to plan days (+/-) | Revised Total Plan Days | Diff. Actual v. Revised Plan (+/-) |
|--|-------------------------------------|-------------------------------------|------------------------------------|--------------------|----------------------------|--------------------------------|-------------------------|------------------------------------|
| Core Risk Activities | | | | | | | | |
| ERM Audit Project | 76.6 | 40.0 | (36.6) | 192% | 90% | 45.1 | 85.1 | 8.5 |
| ERM Initiative (project related) | 33.3 | 40.0 | 6.7 | 83% | 90% | (3.0) | 37.0 | 3.7 |
| Total for ERM Project (plan 80 days) | 109.9 | 80.0 | (29.9) | 137% | 90% | 42.1 | 122.1 | 12.2 |
| IT Risk Governance | 46.7 | 80.0 | 33.3 | 58% | 80% | (21.6) | 58.4 | 11.7 |
| Total for IT RGF (plan 80 days) | 46.7 | 80.0 | 33.3 | 58% | 80% | (21.6) | 58.4 | 11.7 |
| Lottery RGF Development | 2.3 | 50.0 | 47.7 | 5% | 45% | (45.0) | 5.0 | 2.8 |
| Total for Lottery RGF (plan 50 days) | 2.3 | 50.0 | 47.7 | 5% | 45% | (45.0) | 5.0 | 2.8 |
| Finance RGF Development | 15.5 | 50.0 | 34.5 | 31% | 70% | (27.9) | 22.1 | 6.6 |
| Total for Finance RGF (plan 50 days) | 15.5 | 50.0 | 34.5 | 31% | 70% | (27.9) | 22.1 | 6.6 |
| VSE RGF | 1.0 | 1.0 | 0.0 | 100% | 100% | 0.0 | 1.0 | 0.0 |
| VSE Direct Marketing Audit | 35.2 | 15.0 | (20.2) | 235% | 100% | 20.2 | 35.2 | 0.0 |
| VSE Casino Detection | 0.2 | 9.0 | 8.8 | 2% | 1% | 11.0 | 20.0 | 19.8 |
| Total for VSE / Casino RGF (plan 25 days) | 36.4 | 25.0 | (11.4) | 146% | 65% | 31.2 | 56.2 | 19.8 |

| SUMMARY ANALYSIS | | |
|---|------------|--------------|
| TOTAL: Revised Plan Days | 2,257 | |
| - for Audit-related and Strategic Projects | | |
| LESS: Total No. Actual Days Worked | 1,332 | |
| Remaining days required to complete Revised Plan | 925 | 925 |
| TOTAL: Number of remaining man days (10 people x days left) | 220 | |
| LESS: Admin & Internal Process Days remaining | 62 | |
| TOTAL: Days available for Audit and Strategic work | 158 | 158 |
| TOTAL: Over (short) | | (767) |
| in days available to complete Audit & Strategic work | | |

| Project Title | Est. effort (days) | Actual effort (days) | MGR | Lead | Additional Auditor(s) | TRACKING DATES | | | | | | | Performance Measures | | | | | Projected Completion Date | | |
|---|--------------------|----------------------|--------|------|-----------------------|----------------|-----------------|---------------|---------------|-------------------------|---------------------|--------------------------------------|----------------------|------------------|----------------|-------------------------|-----------------|---------------------------|---|--|
| | | | | | | Start planning | Start Fieldwork | End Fieldwork | Draft to Mgmt | Mgmt responses received | Final report issued | 6-month Follow-up Follow up complete | # days planning | # days fieldwork | #days to draft | # days for mgmt respons | # days to final | | | |
| Audit and Assurance Work | | | | | | | | | | | | | | | | | | | | |
| Specifically-Identified Projects | | | | | | | | | | | | | | | | | | | | |
| Masterfile I | 15.0 | 0.0 | CKS | RD | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | 0 | |
| Project A | 15.0 | 1.3 | CKS | JL | | 18-May-11 | 28-Jun-11 | | | | | | | 30 | -29087 | 0 | 0 | -29087 | | |
| Project B | 20.0 | 11.3 | CKS | RD | | 19-May-11 | 23-Jun-11 | 8-Aug-11 | | | | | | 26 | 33 | -29116 | 0 | -29084 | | |
| Project C | 15.0 | 1.3 | CKS | RD | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | | |
| Project A | 15.0 | 1.1 | CKS/RL | JL | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | | |
| Project B | 15.0 | 0.5 | RL | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | | |
| Project C | 15.0 | 2.5 | RL | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | | |
| Project A | 20.0 | 19.7 | CKS | CS | SB | 22-Feb-11 | 19-Mar-11 | 30-Apr-11 | 3-May-11 | | | | | 19 | 30 | 2 | -29047 | -29015 | | |
| Project B | 20.5 | 20.7 | DT | CS | | 2-Mar-11 | 3-Mar-11 | 15-Mar-11 | 23-Mar-11 | 18-May-11 | 3-Jun-11 | | | 2 | 9 | 7 | 41 | 67 | | |
| Project C | 45.0 | 14.7 | DT | JL | | 9-Jun-11 | 11-Jul-11 | 15-Jul-11 | 28-Jul-11 | | | | | 23 | 5 | 10 | -29109 | -29096 | | |

APPENDIX G – AS Template for Customer Survey

Audit Services Survey

For:

| Statement | Poor | Fair | Good | Very Good | Excellent |
|---|-------------|-------------|-------------|------------------|------------------|
| Value Added | | | | | |
| The work AS provided, added value to my business area | | | | | |
| Our involvement contributed to the overall governance within BCLC | | | | | |
| Would you support AS performing this type of role/these activities elsewhere in BCLC | | | | | |
| Scope of Assurance and Advisory Work | | | | | |
| The scope and objectives of the work to be done was clear and had been agreed upon | | | | | |
| The AS Team were helpful and professional | | | | | |
| Comments | | | | | |
| Please provide any additional comments on what you like or did not like about this engagement | | | | | |

Name:

Date: _____