

# *The Corporation of the City of Windsor*

## *Windsor Detroit Tunnel Corp*

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*Final Internal Audit Report*

**1 June 2015**

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# ***Summary of Internal Audit Results***

## ***Background Information***

Windsor Detroit Tunnel Corporation (“WDTC”) is a wholly owned subsidiary of The Corporation of the City of Windsor (“the City”). Therefore, the City has chosen to appoint three members of Council to the WDTC Board. The representative Councillors are appointed by the City of Windsor Striking Committee.

WDTC owns and manages the portion of the Windsor-Detroit Tunnel situated in Canada. WDTC is accounted for on a modified equity basis, which is consistent with the generally accepted accounting treatment for a Government Business Enterprise (“GBE”). Under the modified equity basis, the business enterprise’s accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. The WDTC is governed by the Ontario Business Corporations Act (“OBCA”), which requires the Corporation to have shareholders meet at least once per year to approve certain aspects (including but not limited to appointment of directors) as part of the annual general shareholders meeting (which is a City Council meeting).

WDTC does not have any employees; however there are two individuals, a Chief Executive Officer (“CEO”) and a Tunnel Financial Officer (“TFO”), who are responsible for overseeing certain strategic and financial functions. These two individuals are employees of the City. WDTC is invoiced by the City for time spent by the TFO and any additional resources. A third City of Windsor employee was seconded to WDTC in the role of General Manager, until January 1, 2015.

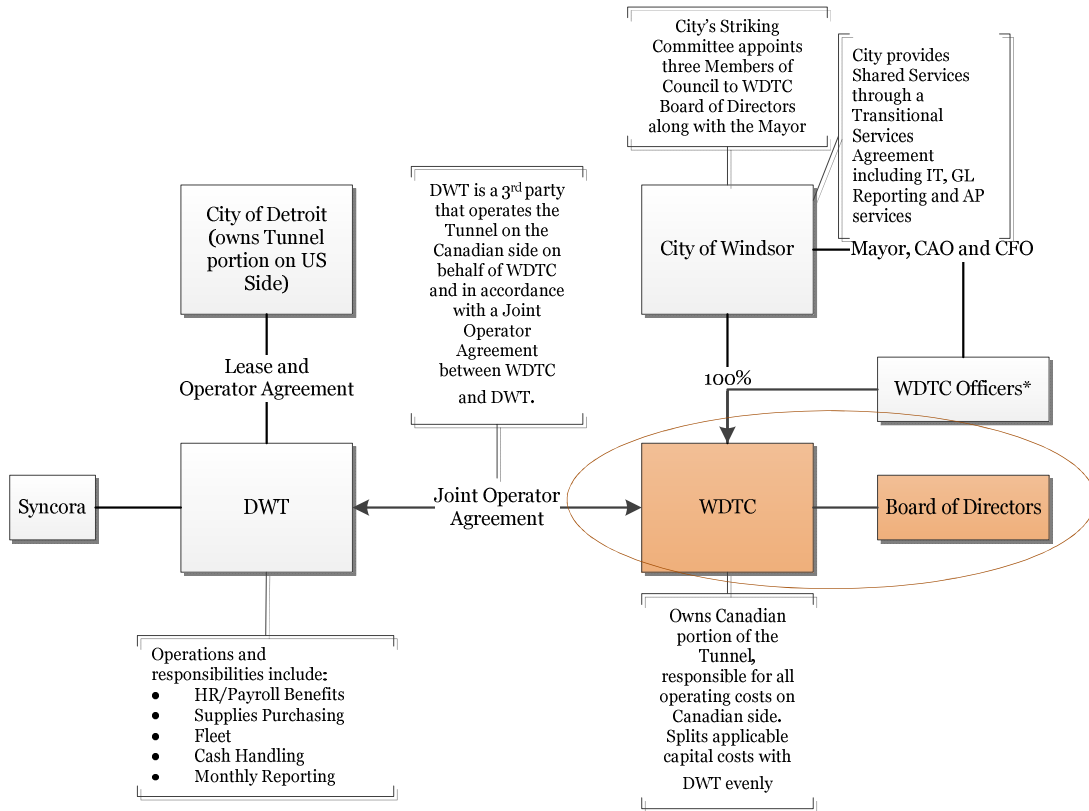
There was a three year Transitional Service Agreement (“TSA”) between the City and WDTC which took effect on January 1, 2010, which still remains in effect to-date via a holdover clause. The City provides shared services to WDTC which include accounting services through the use of the City’s PeopleSoft accounting system in order to generate a trial balance and other minor reports. WDTC complies with the City’s procurement, purchasing and payables policies and procedures for selected areas of need such as repairs and maintenance. WDTC’s expense sharing with Detroit Windsor Tunnel, LLC (“DWT”) is governed by the Joint Operating Agreement (“JOA”). Furthermore, WDTC also has its own delegation of authority and mirrors the City’s Accounts Payable stamp procedure to apply approvals to invoices.

As of January 1, 2010 the assets pertaining to the tunnel were transferred by the City over to WDTC. Prior to this date, the Joint Operating Agreement, dated November 1, 1997, was between the City of Windsor and DWT. However, as of January 1, 2010, there was an Assignment Agreement to effectively transfer the agreement over to WDTC. The day-to-day operations of the tunnel are managed by an outsourced service provider, Detroit Windsor Tunnel LLC. DWT is a third party entity that has a Joint Operating Agreement with the City of Windsor (which has since been assigned to WDTC), dated November 1, 1997 to operate the tunnel from the Canadian side. The joint responsibilities and cost sharing arrangements between the WDTC and DWT are described therein. The General Manager was responsible for managing the relationship with the DWT and overseeing the JOA.

DWT also has an agreement with the City of Detroit to operate the tunnel from the US side. There are no agreement or compliance requirements between WDTC and City of Detroit. Some of the activities that DWT is responsible for include, but are not limited to: Toll collection, hiring employees, managing information systems, reporting results to WDTC, etc. Most assets used to operate the tunnel are jointly owned by WDTC and DWT.

Periodically, WDTC will request an independent review of changes to systems initiated by DWT. As of 2013, DWT’s ownership was transferred to its guarantor (creditor) Syncora after DWT filed for bankruptcy.

The chart below describes the operating structure as of June 30, 2014.



\* As part of a restructuring plan involving its transportation ABCs, the City of Windsor appointed the CEO for YQG & WDTC / CLT Transportation Services on November 21, 2014 (with the role beginning on January 1, 2015). This role effectively replaced that of the General Manager of WDTC.

Our fieldwork was conducted before this date and our interactions were primarily with the former General Manager.

The review has been performed in accordance with the scope of work per Appendix A.

## Report Classification



For the scope period, January 1, 2013 – December 31, 2013, management has designed and implemented controls in many areas of WDTC. Throughout testing, it was noted that in the majority of cases, controls were operating as designed, in areas such as weekly Tunnel updates, invoicing for services provided by seconded staff and the use of Accounts Payable control stamps, as well as budget review and approval. However, there were several design deficiencies noted throughout the review, which are further discussed below.

### Significant Findings:

During our review, we noted several deficiencies in the design of controls, five of which have been classified as significant, specifically:

- i. No evidence of a documented strategic plan;
- ii. No evidence of a review of outsourced provider’s contingency plan;
- iii. Significant amount of time spent reviewing DWT invoices by Tunnel Financial Officer;
- iv. No noted provisions for fraud reporting in the Joint Operating Agreement; and
- v. The age of the Joint Operating Agreement.

Based on the controls identified and tested as part of the Internal Audit of the WDTC’s expanded internal audit, we have determined that there is reasonable evidence to indicate that:

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

Please refer to Appendix C for descriptions of these rating categories.

Management has provided comprehensive action plans, which we believe will address the nine deficiencies noted.

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## *Summary of Positive Themes*

In terms of the positive themes, it was noted that WDTC is in frequent communication with DWT and regularly reviews amounts owing between the entities on a monthly basis. This is likely to promote a stronger working relationship and reduce potential conflicts.

Furthermore, WDTC does not currently employ staff, but its functions are carried out by City employees on secondment, who are therefore bound by applicable City policies in addition to WDTC policies, who are made aware of applicable updates and are required to be in compliance with them. In addition, Tunnel Officers include the Mayor, Chief Administrative Officer, Treasurer and the Tunnel CEO from the City, thus enabling governance and tone at the top at WDTC.

During the course of the review, it was determined that appropriate controls are designed and operating to manage some of the in-scope risks. Examples of these controls include:

- Qualified staff including the General Manager who is a Professional Engineer, Lawyer and Professional Traffic Operations Engineer, as well as the Tunnel Financial Officer who is a Chartered Professional Accountant;
- A clearly defined Transitional Services Agreement between WDTC and the City;
- Management has accountability to an independent Board of Directors;
- Weekly updates provided to Tunnel Officers surrounding the traffic flow of the Tunnel, as well as any major events impacting it;
- The operating and capital budgets are timely and structured, with formal review by the General Manager and Board; and
- WDTC has its own delegation of authority process.

Additional details about the above mentioned controls and other key controls reviewed are discussed in Appendix B: Summary of Controls Reviewed.

The Windsor Detroit Tunnel Corporation (“WDTC”) is a fully owned ABC of the City of Windsor, and is thus governed by applicable policies and procedures. Two further means of guidance and direction include:

1. The Joint Operating Agreement, which is signed by the City of Windsor, provides guidance on matters between both sides of the Tunnel; and
2. The Transitional Services Agreement between the City of Windsor and WDTC, which outlines the roles and responsibilities of each, as well as invoicing provisions. These are enforced by the City of Windsor, as well as the Officers of WDTC, who are also the Mayor, Chief Administrative Officer and Chief Financial Officer of the City of Windsor.

Risk at a strategic level is assessed by the Board of Directors, which includes Members of City Council, as well as the Tunnel Officers. Risk at an operational level was handled by the General Manager and Tunnel Financial Officer through December 31, 2014, and the Chief Executive Officer and Tunnel Financial Officer thereafter.

Regular updates were provided by the General Manager to Tunnel Officers via email providing them with key Tunnel statistics and information to enable them to remain aware of key events and critical issues facing the Tunnel.

## Summary of Findings

Finding #	Topic	Rating <sup>1</sup>			Management Action
		Significant	Moderate	Low	
<b>Cash Management</b>					
1	Evidence of Timely Review and Approval of Bank Reconciliations			X	Develop policy requiring monthly bank reconciliations – WDC Treasurer & Financial Officer – 2015 Q3
<b>Strategic Planning</b>					
2	Strategic plan not documented	X			Develop a strategic plan subsequent to the new JOA – WDC CEO – 2016 Q4
3	Incident and Business Continuity/Contingency Plan	X			Include business continuity plans with review cycles in new JOA's appendices – WDC CEO – 2016 Q4
<b>Policy development framework</b>					
4	Policy Review Cycles			X	Create/adopt required policies – WDC CEO, Treasurer & Financial Officer – 2015 Q4
<b>Information and Data Integrity</b>					
5	Governance and Risk Management of Outsourced Service Provider		X		Enhance management oversight of operator – WDC CEO – 2016 Q4
<b>Operational Oversight</b>					
6	Recurring Invoice Dispute Management Process	X			Propose stronger language in new JOA for issue resolution – WDC CEO – 2016 Q4
7	Fraud Disclosures	X			Propose fraud disclosure process in new JOA – WDC CEO – 2016 Q4
8	Compliance with the JOA		X		Observe current JOA reporting and documentation requirements until new JOA is completed – WDC CEO & WDC Financial Officer – 2016 Q4
9	Age of Joint Operating Agreement	X			Negotiate a new JOA – WDC CEO – 2016 Q4
<b>Total Internal Audit Findings</b>		<b>5</b>	<b>2</b>	<b>2</b>	

<sup>1</sup> See Appendix C for Basis of Finding Rating

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## *Summary of Significant Findings*

The internal audit identified five items of significant improvement related to the design of controls, specifically:

1. WDTC does not have an approved strategic plan to ensure their strategic priorities are documented, approved and aligned with the operator (DWT).
2. While the operator has a documented contingency/business continuity plan, there is no evidence of WDTC's review of those plans, with consideration given to how they impact WDTC's needs and risks;
3. A significant amount of time is spent on a monthly basis by the Tunnel Financial Officer in efforts to reconcile and review invoices from DWT. This prevents him from being able to focus on strategic aspects of his position while he is performing this reconciliation;
4. In its current form, the Joint Operating Agreement does not have provisions for fraud disclosures between the parties once either is made aware of it. This can lead to financial as well as reputational risks for both parties, regardless of who is directly affected by the fraud;
5. The Joint Operating Agreement has not been updated since 1997. The concern with an aged agreement is that unnecessary disputes or misunderstandings can occur if agreements are not maintained. The relationship with DWT should be reviewed periodically and agreements should be formalized to confirm expectations and avoid misunderstandings during the term of the agreement. An example of a misunderstanding that frequently occurs is the sharing of expenses and in one instance the misunderstanding related to the sharing of revenues from an Electronic Toll system implemented a few years ago. The JOA should specify the roles and responsibilities of each party, how costs are to be shared, the monthly reconciliation/reporting process, and the options to renew and or terminate the agreement. The risk is also greater given the 10 years duration of the JOA. Furthermore, since there are other parties (City of Detroit) that also engage with DWT, WDTC relies on there being a healthy relationship between DWT and the City of Detroit because it is mutually beneficial to have the same operator on both sides of the tunnel.



## Management Comments

The preceding 10 years have proven to be a period of significant change for border crossings.

As noted by PWC in the root cause of finding number 2, *“Several external forces and events have occurred over the past several years which have hindered the Board from creating and implementing a strategic plan to be implemented with measurable targets to be monitored.”*

The introduction of enhanced identifications requirements in Canada and the US (2007) in the 9/11 fallout and no smoking legislation in Ontario (2011) impacted tourism and the resultant strategic direction for the WDTC. The severe economic downturn of 2008 also negatively impacted the Tunnel’s commuter traffic and changed the long term strategic forecasts that had been previously developed.

Additionally, events unique to the WDTC impeded the Board’s ability to finalize negotiations of a new JOA. Such events included the audit of DWT by internal and external consultants of payments and the subsequent arbitration proceedings (2005 -2009); the transfer of tunnel assets to WDTC (2010) and the start-up of operations of the new corporation; negotiations with the city of Detroit regarding forms of asset management (2006 to 2008); Detroit political change and turmoil (2008 to 2011), the Detroit bankruptcy (2013) , and the DWT bankruptcy (2013), Nonetheless, efforts to negotiate a new JOA have been ongoing and WDTC administration provided several updates to the WDTC Board during this time frame.

Given the above noted events, it has not been possible to firmly establish a singular strategic direction for WDTC even though WDTC (and the predecessor Windsor Tunnel Commission) held strategic discussions regarding the above matters,

In regard to day to day operations, as noted under specific findings, management continues to follow the review process that emerged as a result of the arbitration ruling in regard to invoices. While management remains optimistic that this process can be minimized under a new JOA, it is expected that the Tunnel Financial Officer will continue to monitor invoices until management determines that such a review is no longer required based on the improved accuracy on DWT’s part and on evidence of absence of dispute. It is noted that the position of Tunnel Financial Officer was introduced to specifically undertake this review and long term strategic forecasting and analysis is intended to be managed by the CEO, WDTC’s Treasurer and Vice President.

While streamlining the review/audit process is always possible and may be achieved through an updated JOA, the nature of any public-private management agreement is such that ongoing thorough oversight by the public partner is crucial to safeguarding its interests. The private partner will always interpret any agreement in a light most favourable to its bottom-line results. Therefore, WDTC management will continue to thoroughly review significant transactions, as appropriate, for the foreseeable future.

Negotiations for a new JOA are ongoing and proposals have been exchanged. With a new board of directors recently put in place and in the absence of further events of the scale noted above, it is expected that a strategic plan can be established within in the next 18 months.

Name: Carolyn Brown  
Title: WDTC Chief Executive Officer  
Date: 30/05/2015

# Detailed Observations

## Findings & Action Plans

Finding	Rating <sup>2</sup>	Recommendation & Action Plan
<b>1. Evidence of Timely Review and Approval of Bank Reconciliations</b>		
<p><b>Observation</b>            Monthly bank reconciliations are prepared and balanced. However, in the sample examined, no evidence of formal review or approval was present. Therefore, Internal Audit is not able to independently and objectively determine if bank reconciliations were reviewed and approved.</p>	<p><b>Overall</b>            Low</p>	<p><b>Recommendation</b>            Management should establish a policy requiring that monthly bank reconciliations are reviewed in a timely manner by an independent member of management and that evidence of this review, approval and its timeliness is apparent.</p>
<p><b>Implication</b>            Bank reconciliations may not be prepared, reviewed or approved in a timely manner or may not be reviewed and approved. Should an issue exist, it may lead to the matter remaining undetected for an extended period of time. If reconciliations are not reviewed and approved, there is a heightened risk for control circumvention.</p>	<p><b>Impact</b>            Low</p>	<p><b>Management Action Plan</b>            Management agrees with the recommendation.</p>
<p><b>Root Cause</b>            Evidence, and a requirement therefore, of management’s review and approval of bank reconciliations in a timely manner is not present and in effect.</p>	<p><b>Likelihood</b>            Likely</p>	<p><b>Responsibility</b>            WDC Treasurer            Tunnel Financial Officer</p> <p><b>Due Date</b>            2015 Q3</p>

<sup>2</sup> See Appendix C for Basis of Finding Rating and Report Classification

Finding	Rating	Recommendation & Action Plan
<b>2. Strategic plan not documented</b>		
<p><b>Observation</b> Reporting of management's operational and capital budgets to the Board of Directors occurs annually, at a minimum. However, in the period subject to review, there was no broader, board-directed and approved strategic plan documented.</p> <p>Furthermore, a process for periodic review of strategic plans does not appear to be implemented.</p>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b> The Board should define the strategic vision and direct management to develop a draft strategic plan that considers the unique needs and considerations of WDTC, for Board consideration. This should be drafted with consideration from the Corporate Transportation Leader, Tunnel Officers, and the Board of Directors.</p> <p>This plan should consider the goals of WDTC, a plan to overcome anticipated challenges and to provide a means for management to measure itself against its targets. This plan should be developed subsequent to a new Joint Operating Agreement being agreed to with the operator to allow WDTC to be aware of its opportunities and barriers to success.</p>
<p><b>Implication</b> Without this plan, there is no accountable and independently verifiable direction for WDTC, and can result in lost opportunities or inferior results. In addition, without clear articulation, strategy is open to increased misinterpretation.</p>	<p><b>Impact</b> High</p>	<p><b>Management Action Plan</b> Management agrees that WDTC should develop a strategic plan as part of the negotiation of a successor JOA. The strategic plan would be finalized after the JOA negotiations have been completed.</p> <p><b>Responsibility</b> WDTC CEO</p> <p><b>Due Date</b> 2016 Q4</p>
<p><b>Root Cause</b> Several external forces and events have occurred over the past several years which have hindered the Board from creating and implementing a strategic plan to be implemented with measurable targets to be monitored.</p>	<p><b>Likelihood</b> Likely</p>	

Finding	Rating	Recommendation & Action Plan
<b>3. Incident and Business Continuity/Contingency Plan</b>		
<p><b>Observation</b> Service provider operational issues are communicated and addressed on a case by case basis as issues arise; however, there was no documented evidence of WDTC's awareness of a business continuity plan or a formal contingency plan for events or circumstances which impact WDTC's or DWT's operations. For example, a formal:</p> <ul style="list-style-type: none"> <li>• process for assessing potential interruptions to business operations, and</li> <li>• Associated contingency plans are not defined/documented.</li> </ul>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b> Management should define a process and supporting procedures/plans to identify threats and risks, escalate, invoke and execute incident response and business continuity plans.</p> <p>Alternatively, should a business continuity model be in place with the operator, management should ensure the following is considered and documented by WDTC:</p> <ul style="list-style-type: none"> <li>• the business continuity model be documented, and included as part of the Joint Operating Agreement, or referenced therein;</li> <li>• WDTC annual review of the business continuity plan to demonstrate it recognizes that the operator has a plan in force and that the plan is sufficient to address WDTC's needs;</li> <li>• include in the Joint Operating Agreement that WDTC will be made aware of all instances of testing of the business continuity plan, its results, and any deficiencies or issues noted; and</li> <li>• the required notification/escalation in the invocation process and WDTC's role in the business continuity plan invocation and execution.</li> </ul> <p>Furthermore, management should consider monthly reporting tools which outline key metrics of DWT to be provided to WDTC, which would allow management to identify potential areas of allowing them to prepare for potential issues.</p> <p>Examples of such metrics should include both those pertaining to the financial health of DWT such as its current ratio, efficiency ratio and cash (quick) ratio, as well as operational metrics which directly impact WDTC such as cash collected per vehicle processed.</p>
<p><b>Implication</b> The absence of incident detection, escalation and response protocols increase the risk of poor decision making and late response in the face of an incident. In addition, the absence of a plan and the associated training/exercise thereof, is known to increase the risk or error, failure and poor decisions in a time of increased stress.</p>	<p><b>Impact</b> High</p>	
<p><b>Root Cause</b> While management has outsourced operations, management has not formalized incident identification, escalation and related contingency or continuity plans in response to possible detrimental events, or have not documented its understanding of a business continuity model in place with the operator.</p>	<p><b>Likelihood</b> Likely</p>	

Finding	Rating	Recommendation & Action Plan
		<p><b>Management Action Plan</b></p> <p>As the operator, DWT LLC has developed and regularly updates a business continuity plan. This is not WDTC's responsibility.</p> <p>The successor agreements to the JOA will include as an appendix DWT's business continuity plan and WDTC will put a process in place to review the plan on an annual basis to ensure:</p> <ul style="list-style-type: none"> <li>• that it addresses WDTC's needs;</li> <li>• that DWT tests the plan on a regular basis; and</li> <li>• that WDTC is apprised of any deficiencies or issues noted.</li> </ul> <p>The successor agreements to the JOA will also include key metrics against which DWT's performance will be measured.</p> <p>WDTC also benefits from the City's own business continuity plans for those services it purchases from the City.</p> <p><b>Responsibility</b></p> <p>CEO, WDTC</p> <p><b>Due Date</b></p> <p>2016, Q4</p>

Finding	Rating	Recommendation & Action Plan
<b>4. Policy Review Cycles</b>		
<p><b>Observation</b> In examining the framework for policy development, it was noted that a review cycle has not been specified for any WDTC specific policies.</p>	<p><b>Overall</b> Low</p>	<p><b>Recommendation</b> As part of policy governance, management should implement a review/maintenance cycle. At a minimum all policies should be reviewed and modified or re-endorsed every 5 years, which is the same review period for policies at the City of Windsor. This minimum requirement should be applied to all policies; however some may require more frequent validation. In addition, the requirement for policy review and validation should be incorporated in the policy governing policies and exceptions (less than 5 years) or other triggers for update should be incorporated into the individual policies.</p> <p>For current policies older than 5 years, management should define and implement a process to review, modify and/or validate a more current version.</p>
<p><b>Implication</b> Policies are more likely to become outdated, leaving WDTC potentially exposed to new developments or threats which did not exist when the policy was first created. This could lead to lost productivity and resources in certain situations. In addition, the control culture and tone at the top may be impaired if the governance structure is not revitalized/reviewed and endorsed or modified on a regular and meaningful basis.</p>	<p><b>Impact</b> Low</p>	<p><b>Management Action Plan</b> WDTC has no employees and those employees who work on WDTC matters are City of Windsor employees who are governed by City of Windsor policies.</p> <p>WDTC has developed the following specific policies:</p> <ol style="list-style-type: none"> <li>1. Amortization</li> <li>2. Foreign Exchange</li> <li>3. Signing Authorities</li> <li>4. Capital Assets and Repairs Expenditures</li> <li>5. Investments Procedure</li> </ol> <p>Management will add a field to the policy template indicating the “next review date”. Management will review all policies that are five years or older.</p> <p>To the extent that WDTC is required to develop its own policies, Management will adopt the City of Windsor’s policies to the extent that they apply to the Tunnel’s operation. Management will include a review timeframe for all policies that are unique to WDTC.</p>
<p><b>Root Cause</b> There is no minimum requirement and enabling process for a policy review lifecycle.</p>	<p><b>Likelihood</b> Likely</p>	<p>Management will review all policies that are five years or older.</p> <p>To the extent that WDTC is required to develop its own policies, Management will adopt the City of Windsor’s policies to the extent that they apply to the Tunnel’s operation. Management will include a review timeframe for all policies that are unique to WDTC.</p> <p><b>Responsibility</b> CEO for non-financial policies WDTC Treasurer/ Tunnel Financial Officer for financial policies</p> <p><b>Due Date</b> 2015, Q4</p>

Finding	Rating	Recommendation & Action Plan
<b>5. Governance and Risk Management of Outsourced Service Provider</b>		
<p><b>Observation</b> The WDTC does not execute the right to audit the key service provider controls impacting WDTC; however, with the Board’s direction, management commissioned an independent report on recent systems implementation.</p> <p>While management has outsourced the operational execution of the process and controls to a service provider, WDTC still retains responsibility for overall risk management, service delivery and control effectiveness.</p> <p>During our review, we did not detect evidence that management had an ongoing process for assessing the design and operating effectiveness of the key controls executed by the service provider.</p> <p>In addition, the letter of engagement between WDTC and the independent party that conducted a post implementation review over DWT's toll and cash collection process restricts the distribution of the deliverable/report to only WDTC management and its Board. Thus, reliance cannot be placed on the deliverables/ report by Internal Audit and therefore Internal Audit is unable to conclude whether the related control objectives are attained.</p>	<p><b>Overall</b> Moderate</p> <p><b>Impact</b> Medium</p> <p><b>Likelihood</b> Likely</p>	<p><b>Recommendation</b> Management should ensure there is an overall outsourced service provider governance and management program which includes the following and is supported by evidence of implementation and execution:</p> <ol style="list-style-type: none"> <li>1. There is a formal governance process over the service provider (i.e. enforce contract, enforce operating agreements, service levels, regular status and performance touch points, regular service provider performance monitoring, etc...).</li> <li>2. The outsourced process risks and the unique risks of dealing with the selected service provider are defined, monitored and effectively managed over each fiscal period and the life of the contract. Each risk should be defined, assessed and the corresponding mitigation/management plan identified. (I.e. risk register noting the risk, risk source [inherent process versus outsourced provider], risk management strategy, responsible party) as part of the outsourced service provider risk register.</li> <li>3. All contracts are reflective of business needs and in force.</li> <li>4. Service provider operational activities are conducted in accordance to WDTC needs (formal and informal performance and SLA monitoring).</li> <li>5. Service provider key controls are designed and operating effectively to meet the business and operational risks of WDTC in each fiscal period or period of change. This is generally accomplished through the execution of a right to audit, a 3<sup>rd</sup> party service organization controls report, a specified procedures report or an internal audit report from the service organization that outlines the control objectives, control activities, the associated tests and the test results. The scope of each of the aforementioned options should address the universe of controls outsourced to the service provider.</li> <li>6. Issues are formally identified and communicated in a timely manner (i.e. escalation process and requirements, issue, date of occurrence, notification date, status, resolution, resolution date, notes, etc...).</li> <li>7. Risk decisions made by the service provider related to WDTC outsourced operations are acceptable to WDTC.</li> </ol> <p>These outsourced service provider governance and management functions should be conducted by WDTC over and above the JOA. Some of the</p>

Finding	Rating	Recommendation & Action Plan
		<p>elements of risk mitigation/management may be executed through the JOA. Management should determine which of these programs should be mandatory based on significance, as well as cost-benefit, and which can be done on an as-needed basis.</p>
<p><b>Implication</b>  WDTC retains responsibility for overall risk management, service delivery and control effectiveness of the service provider but has no ongoing mechanism to assess the effectiveness thereof which may result in financial losses, reputational impairment, poor service delivery or increased internal costs.</p>		<p><b>Management Action Plan</b>  Management has monitored the JOA and managed the service provider from the inception of the JOA and there is evidence that this has taken place by virtue of the various documented reviews, arbitration proceedings and decisions that have been carried out over the life of the JOA. This process has sustained itself over the long term life of the JOA. The disputes that are highlighted by PWC in finding #6 provide evidence of the continued monitoring during the audit period and issues that arise within the JOA have been addressed by management.</p> <p>Management generally agrees with the recommendations to improve the efficiency of the process for managing the operating arrangement.</p> <p>The above issues and concerns will be addressed and executed through the agreements that succeed the JOA, to the extent possible acknowledging that this will be a two- party negotiated contract.</p> <p>The issues related to review and monitoring of risk will be addressed to the extent that staff and external consulting resources allow.</p>
<p><b>Root Cause</b>  WDTC does not have a sustainable program for managing a service provider.</p>		<p><b>Responsibility</b>  CEO, WDTC</p> <p><b>Due Date</b>  2016, Q4</p>



Finding	Rating	Recommendation & Action Plan
<b>6. Recurring Invoice Dispute Management Process</b>		
<p><b>Observation</b> We selected a sample of five monthly invoices from DWT to WDTC for operating costs. In each sample, amounts in dispute were noted with the total disputes in the sample between \$28,500 and \$33,000 (daily exchange rate impacts value). It was noted that there can be several disputes per invoice.</p> <p>Our sample was selected from within the population consisting of invoices from January 2011-August 2014. Within that population, we noted individual disputes up to \$32,000+ with a total aggregate impact in a range of \$126,000 to \$150,000 (daily exchange rates impacts value).</p> <p>Based on discussions with management, these variances often pertained to billing disputes or the recovery of miscalculated administration fees from prior years.</p> <p>Although these variances were identified as part of a monthly review process, the process for resolving the variances is time consuming and result in a delay in payment or recovery. Furthermore, the JOA does not include a reimbursement mechanism for the work performed by WDTC staff to correct and reconcile invoices from the Tunnel Operator.</p>	<p><b>Overall</b> Significant</p> <p><b>Impact</b> High</p> <p><b>Likelihood</b> Likely</p>	<p><b>Recommendation</b> A new joint operating agreement should be drafted in order to reflect current conditions and mitigate the number of disputes.</p> <p>WDTC and DWT should continue to hold regular in-person meetings to discuss their disputes with the intention to either resolve differences during the meeting, or to set a deadline for resolution.</p> <p><b>Management Action Plan</b> Management agrees that the review of invoices is inefficient but notes that the primary reason for the invoice disputes is DWT's practice of submitting invoices without support. Management continues to follow the review process that emerged as a result of the arbitration ruling in regard to invoices.</p> <p>While management remains optimistic that this process can be minimized under a new JOA, it is expected that the Tunnel Financial Officer will continue to monitor invoices until management determines that it is no longer required based on the experience of level of accuracy in invoices and absence of dispute.</p> <p>Management proposes to include stronger language, regarding the resolution of invoices in the agreements that succeed the JOA. Such language will also include provisions for the recovery of expenses by WDTC due to billing errors/inaccuracies of the service provider; acknowledging that this is a negotiation and compromises will be reached.</p> <p>The new JOA discussions commenced in August of 2014 and remain in process.</p>
<p><b>Implication</b> This leads to an inefficient process whereby more time is dedicated to the Accounts Payable process than is needed. This leads to inefficient productivity, as well as potential cash flow issues should a significant adjustment be required due to a miscalculation. There is a risk that disputes incur additional time and resources and result in failure to achieve major objectives.</p>		
<p><b>Root Cause</b> The Joint Operating Agreement is outdated and does not clearly address current events which lead to misunderstandings and differences in expectations.</p>		<p><b>Responsibility</b> CEO, WDTC Tunnel Financial Officer</p> <p><b>Due Date</b> 2016, Q4</p>

Finding	Rating	Recommendation & Action Plan
<b>7. Fraud Disclosures</b>		
<p><b>Observation</b> The Joint Operating Agreement appears to be silent on required protocols and mechanisms for reporting concerns (legal, fraud etc.) by either organization. City employees seconded to WDTC, the GM and Tunnel Financial Officer would be required to adhere to the City's Fraud Policy.</p> <p>However, fraud policies and protocols for reporting concerns as it pertains to reporting DWT related concerns to WDTC is currently not outlined in the JOA .</p>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b> Management should ensure that a fraud reporting process is in place and included in the Joint Operating Agreement. It should include such factors such as fraud detection, investigation and a definition of what channels to follow in reporting of instances. It should require all known instances of fraud be reported to WDTC. WDTC should ensure that all fraud reports are communicated to WDTC Board for all business aspects, including service provider incidents.</p>
<p><b>Implication</b> Fraud at either organization would have a serious impact on the other due to the financial losses for both parties, but as well as public perception, which could result in damage to their reputation.</p>	<p><b>Impact</b> High</p>	<p><b>Management Action Plan</b> Management agrees that the current JOA is silent on the process of fraud disclosures. The successor agreements to the JOA will include language with respect to a fraud policy and fraud reporting process.</p> <p>Further, City of Windsor employees who work on WDTC matters are governed by the City of Windsor's "Fraud and Misuse of Assets Policy" and "Concerned Employees" Policy.</p>
<p><b>Root Cause</b> Fraud detection, investigation and reporting are not discussed in the Joint Operating Agreement.</p>	<p><b>Likelihood</b> Likely</p>	<p><b>Responsibility</b> CEO - WDTC</p> <p><b>Due Date</b> 2016, Q4</p>

Finding	Rating	Recommendation & Action Plan
<p><b>8. Compliance with the JOA</b></p> <p><b>Observation</b> When reviewing compliance with the JOA the following exceptions were noted:</p> <ul style="list-style-type: none"> <li>The Co-ordinating Committee was formed under the JOA with a specific mandate to provide governance to the two organizations bound by the agreement. During the course of the review, it was noted that this committee has not met in at least the previous five years.</li> <li>The responsibilities of the Co-Ordinating Committee have not been formally distributed.</li> <li>The DWT annual report was submitted on April 9, 2014, which is beyond the 90-day period subsequent to year end as prescribed by the JOA.</li> </ul> <p>It was noted that despite the noted exceptions above, regular in-person meetings were held to address both current issues and other business matters between the following parties:</p> <ul style="list-style-type: none"> <li>Tunnel Financial Officer and members from the Finance Department at DWT;</li> <li>The General Manager of WDTC and the President of DWT; and</li> <li>The Technical Advisory Committee, which consists of representatives from both parties. (refer to Control 11 in Appendix B)</li> </ul>	<p><b>Overall</b> Moderate</p> <hr/> <p><b>Impact</b> Medium</p> <hr/> <p><b>Likelihood</b> Likely</p>	<p><b>Recommendation</b> Management should ensure that the JOA is either complied with or that the appropriate updates to the JOA are made.</p> <p>For the period under which there was non-compliance with the JOA, management should document the rationale, related risk assessment/impact and inform the Board of that rationale and risk assessment/impact.</p> <p><b>Management Action Plan</b></p> <p>Management notes that the meetings between WDTC's General Manager and DWT's President took the place of the meetings of the Coordinating Committee; and that the General Manager maintained a file of the issues that were discussed at these meetings.</p> <p>Until such time as the successor agreements to the JOA are negotiated and executed, management will do the following:</p> <ul style="list-style-type: none"> <li>Reinstate the Coordinating Committee Meetings</li> <li>Review the JOA and direct that DWT comply with all reporting guidelines contained therein</li> <li>Document any further issues of non-compliance</li> <li>Document any updates to the JOA</li> </ul>
<p><b>Implication</b> Non-compliance with a legal agreement puts the entity at risk where legal action and operational risk may be impaired. Board governance and oversight of operations is at risk and potential board member liability with the position of their office and due care.</p>		<p><b>Responsibility</b> CEO, WDTC Tunnel Financial Manager</p>
<p><b>Root Cause</b> Compliance with JOA, in regards to the items noted above, was not in effect or the JOA was not updated to reflect current needs and practices.</p>		<p><b>Due Date</b> 2016, Q4</p>

Finding	Rating	Recommendation & Action Plan
<b>9. Age of Joint Operating Agreement</b>		
<p><b>Observation</b> The Joint Operating Agreement (“JOA”) has reached the end of its term and WDTC was not operating under a JOA with DWT during the period of this review. The Joint Operating Agreement was last reviewed in 1997 and its term ended in 2007. There is a risk that it has outdated facts and terms or is not reflective of current operating environment, such as the agreement does not list the Windsor Detroit Tunnel Corporation as one of the owners, as well as there is no longer token revenue, as this has been replaced by ETC .</p>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b> WDTC should work in conjunction with DWT to negotiate a new JOA that will consider the current terms of the agreement, as well as consideration for recent events for which the JOA did not provide a maximum level of clarity, such as adding more options to dispute resolution before arbitration and payment terms while invoices are in dispute, fraud considerations and service provider governance and oversight.</p>
<p><b>Implication</b> In the 17 years since it was last updated, shareholders have changed, committees have disbanded and new ones have formed. By not regularly updating the JOA, it becomes more likely to not consider modern events and considerations which can lead to a loss for WDTC.</p>	<p><b>Impact</b> High</p>	<p><b>Management Action Plan</b> While management generally agrees with the goal of this recommendation and is aware of the JOA’s 2007 expiry date, it is important to acknowledge the various events that have led to a delay in the renewal or the renegotiation of the JOA. These events include the audit by internal and external consultants of payments and the arbitration proceedings (2005 -2009); the transfer of WDTC assets (2010); negotiations with the city of Detroit regarding forms of asset management (2006 to 2008), Detroit political change and turmoil (2008 to 2011), the Detroit bankruptcy (2013), the DWT bankruptcy (2013). Nonetheless, efforts to negotiate a new JOA have been ongoing and during this time frame, WDTC administration provided several updates to the WDTC Board.</p> <p>WDTC and DWT also have correspondence on file that documents critical changes in governance, ownership and other terms of the JOA that have occurred since the JOA’s inception.</p> <p>WDTC will review of the current JOA to identify the facts and terms that have been updated since the JOA was last executed. These updated terms and facts will be reflected in the successor agreement to the JOA, to the extent that WDTC is able to negotiate such updates with DWT LLC.</p> <p>WDTC and DWT have exchanged a number of draft term sheets that outline the provisions with respect to the agreements that will succeed the JOA and negotiations will continue until resolution of the operations is achieved in one form or another. Management will continue to report to the WDTC Board on the status of these negotiations.</p> <p><b>Responsibility</b> CEO, WDTC</p> <p><b>Due Date</b> 2016, Q4</p>
<p><b>Root Cause</b> The JOA has not been updated since the end of its term in 2007.</p>	<p><b>Likelihood</b> Highly Likely</p>	

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## ***Considerations for Improvement***

There was one additional considerations for improvement noted as follows:

### **1. Board of Director Meeting Schedule**

The Board of Directors meets at least annually (or on an as needed basis) to carry out its oversight responsibilities. However, during the period subject to review, there didn't appear to be a pre-defined schedule of board meetings.

Subsequent to the review, management has implemented, on a go-forward basis, a schedule for board meetings.

At the beginning of the year, management should also consider determining how to allocate certain required agenda items and/or key decisions across the scheduled meetings.

Meetings may be cancelled with sufficient notice to the Board members with the intention to postpone the discussion of the pre-determined agenda items.

This will help to ensure that the Board members are made aware of the upcoming meetings and agenda items.

### **Management Action Plan**

Management will develop an annual schedule of Agenda Items and/or key decisions for the Board's review and approval.

### **Responsibility**

CEO, WDTC

### **Due Date**

2015, Q3

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# Appendix A: Background & Scope

## *Linkage to the internal audit plan*

As part of the Council approved 2013/14 Internal Audit Plan, Internal Audit performed an “Expanded Review” of Specified Objectives which focus on predetermined key City business objectives where the Agencies, Boards, Commissions (“ABCs”) have a direct impact. In many instances the issues and risks of both the City and the ABCs are similar in their inherent nature.

As part of the internal audit plan development this business process area has processes and controls associated with mitigating and managing the following corporate risks: Operational oversight, Funding oversight, Program delivery, Governance, Structure/culture, Legislative & regulatory, Public reaction/expectation, Planning & resource allocation, Reputation, Service Delivery, material resources, Information for decision making, Security and privacy, Inter-departmental co-ordination, Asset protection, Value creation, Labour relations, Accountability, Scalability, Treasury/liquidity, Fraud & corruption, Loss/theft of assets, Compliance, Sourcing/cessation, Program delivery, Benefits realization/sustainability, Compliance, Transition/implementation.

## **Scope**

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

Due to the unique operating structure and reliance on outsourced service providers, internal audit included “Operational Oversight” in this review.

As part of internal audit of the business processes and controls in effect internal audit considered:

1. City Reporting relationship & agreement
2. Compliance with city reporting relationship and Tone at the top
3. Policy framework and evidence of compliance
4. Regular reporting to the City
5. Integrity of management information
6. Fraud risk management protocols
7. Cash management process
8. Media monitoring and escalation
9. Funding/budget process
10. Change management
11. Information and data security
12. Operational Oversight

Given the City’s relationship with ABC’s and the significant oversight for ABC’s funding and operations, it was determined that an internal audit to review these areas was necessary to ensure that the current processes in place are sufficient and appropriately address the risks facing the City of Windsor and to ensure there is a consistent understanding of what is important .

Generally, our scope covered the most recent completed year (i.e. January 1, 2013 to December 31, 2013).

### *Specific Scope Limitation*

Consistent with commonly accepted practices, our work was dependent on the following management activities which are excluded from the scope of this review:

1. For the purpose of this review, the operations and practices of DWT were not in scope.
2. The effective design, implementation and operation of the Information and Technology (IT) environment and IT general controls.
3. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data.
4. Controls over the completeness, accuracy, reliability and validity of the evidence, information and data provided by management during the course of this review.

## Appendix B: Summary of Controls Reviewed

### Controls identified and mapped to Control Objectives

Depending on the nature of the ABC's involvement in each of the 12 review areas, Internal Audit assigned the scope category to each of the associated risks as follows:

1. Managed by WDTC (includes compliance with the OBCA and TSA)
2. Overseen (or jointly managed) by WDTC (includes compliance with JOA and amendments to the JOA)

The following table summarizes the control objectives which were subject to review and the 14 key controls observed during the course of fieldwork and for the period under review. This table also provides a reference to the summary of findings and considerations for improvements noted in the body of the report. Note that these controls were documented as of October 2014.

Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
1. City Reporting relationship & agreement	Clear accountabilities, expectations and reporting relationships and protocols are established for the City/WDTC relationship. Both parties are aware of those agreed to expectations.	Managed by WDTC	1. Transitional Services Agreement	WDTC and the City have a signed Transitional Services Agreement which lays out expectations, requirements and standards between the two entities.	

Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
2. Compliance with city reporting relationship, Tone at the top	Management has mechanisms in effect to ensure that agreed to reporting relationships and expectations are adhered to, that appropriately scaled governance is in effect and that information is protected from disclosure outside of this relationship.	Managed by WDC	2. Board of Director Meeting Minutes	<p>WDC is governed by a Board of Directors that is currently comprised of the Mayor, three Councilors, and one member that is not elected to public office. The Board provides oversight, governance and is also responsible for approving key strategic decisions as well as the budgets, while ensuring that WDC is meeting its requirements under the JOA and TSA.</p> <p>The Board meets at the Call of the Chair, on average 2-4 times per year, with meetings scheduled as needed.</p>	Consideration for Improvement #1
3. Policy framework and evidence of compliance	WDC has key policies related to confidentiality, conflict of interest, employees' responsibilities, privacy, cash handling, reporting, etc. and mechanisms to assess compliance.	Managed/Overseen by WDC	3. Policies	As City employees, WDC seconded staff are required to be in compliance with City policies.	4
4. Regular reporting to City	Two way communications between the City and WDC occurs and defined/required information is exchanged in a timely manner.	Managed by WDC	4. Weekly Reports	To keep WDC Officers abreast of current Tunnel events and relevant news, on a weekly basis, the WDC General Manager provides Tunnel Officers with relevant statistics pertaining to the Tunnel including traffic and average wait times, and other issues of note. Tunnel Officials are the President of the WDC (Mayor), Vice-President of the WDC (CAO) and Secretary-Treasurer of the WDC (Treasurer of the City of Windsor).	



Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
5. Integrity of management information	Management has a mechanism for assessing the integrity of information used in decision making based on the sources used.	Managed by WDTC	5. WDTC Invoices	On a monthly basis, the General Manager prepares a summary of all City services used (such as payroll) which are reviewed and approved by the City Engineer and Deputy Treasurer before being converted into an invoice from the City to WDTC using pre-approved rates and caps on time and service provided in order to carry out the terms of the TSA.	
		Managed by WDTC	6. GM Review	Internal and external reporting is reviewed by the General Manager on an as needed basis before going to the Board for approval in order to provide for the most accurate information possible before a key strategic decision can be made.	
6. Fraud risk management protocols	WDTC has a policy and position on fraud risk management and mechanisms for enabling compliance.	Overseen by WDTC	Refer to Control #13.		7
	WDTC investigates all possible fraud when there is a concern or suspicion for wrongdoing within the entity.		Refer to Control #13.		7

Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
7. Cash management process	Management ensures that there are appropriate controls over cash collection, deposits and payments to mitigate losses and optimize cash flow.	Managed by WDC	7. Bank Reconciliations	Monthly bank reconciliations are prepared by a Clerk and reviewed by the Tunnel Financial Officer, who will then approve them. This ensures the cash balances in the GL and the bank are both accounted for and properly presented.	1
			8. AP Control Stamps	Payments cannot be made without the approval of either The General Manager or Tunnel Financial Officer, both of whom have AP Control Stamps with specified approval limits to ensure that all requests for payment are reviewed by an appropriate level of management.	
	There are adequate review and approval, and reconciliations used to mitigate against risk of theft of cash	Overseen by WDC	Refer to Control #14.		
8. Media monitoring and escalation	A mechanism for maintaining awareness as to media mechanisms and potential items of disclosure. A mechanism for identifying and informing stakeholders of critical media content impacting brand/reputation exists and is used.	Managed by WDC	9. Media releases	WDC utilizes the City of Windsor's media relations personnel via email to alert them to media releases impacting WDC. A daily email is provided to the General Manager, who reviews it for anything related to WDC. The General Manager, who is also the dedicated spokesperson will then write any required media releases and is responsible for addressing the media to ensure that appropriate staff members are responding to the media.	

Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
9. Funding/budget process	The funding/budget process is supported through clear roles and responsibilities, as well as effective communication to coordinate among internal stakeholders	Managed by WDTC	10. Budget	The operating budget is prepared annually by the Tunnel Financial Officer, reviewed by the General Manager and approved by the Board to provide appropriate oversight and review of the budget document. The capital budget is created in conjunction with the operator.	2 & 3
			11. Technical Advisory Committee	The Technical Advisory Committee meets monthly to decide what Tunnel assets will be purchased or repaired for budget purposes. This provides a means to maintain the interests of both parties for capital purchases. Recommendations are then included in the budget packages approved by the Board of Directors	
10. Change management	Changes to production data, systems and environments reflect business need and management directions ensuring the integrity of the information processing environment.	Overseen by WDTC	12. Change management	To provide oversight in regards to major changes by the operator, management will review the details of the changes performed, or hire an external consultant, to determine whether the change was appropriate and in line with their business needs.	

Review Area	Control Objectives	Scope Category	Control Title	Control Description	Reference to Finding
11. Information and data security	Information, data and processing integrity and confidentiality are maintained and monitored.	Overseen by WDTC		Refer to Control #12	5
12. Operational Oversight	Management has an ongoing oversight process to assess the design and effective operation of outsourced operational controls on a regular basis (annual at a minimum).	Managed by WDTC		Refer to Control #12	5
			13. Joint Operating Agreement	WDTC and DWT's relationship is governed by a Joint Operating Agreement that sets out how joint assets and procedures are to be shared and assigned.  The agreement is reviewed on an as-needed basis in order to set out the terms and conditions of the business relationship of the two entities.	8 & 9
			14. Review of Invoices	On a monthly basis, the Tunnel Financial Officer reviews submitted capital expenses and invoices from the operator to verify their proposed splits of the invoices in the period, in accordance with the terms of the JOA	6

# Appendix C: Basis of Finding Rating and Report Classification

## Findings Rating Matrix

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

## Likelihood Consideration

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

## Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value <sup>3</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Significant control weaknesses, which would lead to financial or fraud loss.</p> <p><b>An issue that requires a significant amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Failure to meet key strategic objectives/major impact on strategy and objectives.</li> <li>• Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage / opportunity</li> <li>- Loss of supply of key process inputs</li> </ul> </li> <li>• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.</li> </ul> <p><b>Legal / Regulatory</b> Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p><b>An issue that requires some amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• No material or moderate impact on strategy and objectives.</li> <li>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives</li> <li>• Moderate reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p><b>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Minimal impact on strategy</li> <li>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives</li> <li>• Minimal reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with minimal consequences.</p>

<sup>3</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

## Audit Report Classification

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