

# BUDGET BRIEFING NOTE

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January 20, 2006

To: Administration Committee

From: City Manager

RE: Additional Two Positions for Internal Audit Division

## **Background:**

- Internal Audit supports and provides management with assurance that risks in their respective operations are being managed and that effective controls exist
- Internal Audit activities are intended to be preventative in nature, i.e. to identify and mitigate risks before they cause problems
- As the Auditor General is independent of management and does not provide advice to management on risk and controls, Internal Audit is an essential resource to assist management in this regard
- The cost of the additional two positions requested by Internal Audit would be recovered from/absorbed by divisions and would bring the Division's complement up to eight positions
- The division's workload has increased as more staff are taking advantage of the risk/controls and assurance services the division provides
- Internal Audit's activities are in line with and support the organization's commitment to enhanced oversight and controls

## **Financial Implications:**

- Request of \$220.0 K (gross) or \$0.0 K (net) to fund salaries and fringe benefits for these 2 FTEs
- Recoveries for these positions as follows:
  - \$110.0 K from cluster overseen by Deputy City Manager Fareed Amin
  - \$55.0 K from cluster overseen by Deputy City Manager Sue Corke
  - \$55.0 K from cluster overseen by Deputy City Manager & Chief Financial Officer Joseph Pennachetti

## **Justification for New Positions:**

- Increased demand from the City Manager, Deputy City Managers and division heads for assurance reviews in the areas of contract management, revenue controls, procurement, inventory, asset management and payroll/HR
- Increased requests from Council to perform additional (follow up) work with respect to issues identified by the Auditor General (i.e., fleet services, EMS, etc.)

- Increase in the number of forensic investigations referred to Internal Audit from the Auditor General
- Due to lack of resources, the division was only able to do 4 contract management audits in 2005 – operating divisions have identified a specific need for internal audit assurance in this area – the additional positions would allow internal audit to meet this need
- The division also wants to do regular procurement process audits of DPOs, RFPs, RFQs and tenders to ensure processes were effective, fair, open and in compliance with policies, and provide senior management with assurance in this regard
- Spot audits of hiring processes is also a priority for the division in 2006 and beyond to ensure that City policies are being adhered to – the additional resources would also assist in this area
- Establishing a more visible Internal Audit presence across remote City locations, would act as an effective deterrent to inappropriate activity/behaviour
- Increased demand from divisions for risk/controls advice on new systems, processes or initiatives – this better ensures proper controls exist before the project starts or implementation of the system begins (e.g. 311, Water Meter Pilot Project) – Internal Audit did this for the TELS project and successfully worked with management to ensure key project and administrative risks were properly addressed – the additional staff would better ensure these types of requests which are on-going can be met
- Additional positions will allow a more systematic approach to audit activities to help prevent risks before they cause problems, rather than reacting to problems after the fact.

**Implications if Positions are Not Approved:**

Non-approval of the requested positions would impact the Internal Audit’s ability to:

- effectively address areas of significant risks/exposures on a timely basis
- ensure an adequate level of internal audit coverage in the various remote locations across the City
- perform regular audits of various administrative/financial processes (contract management, procurement, hiring, revenue, inventory, assets, payroll, etc.) to assure management (and indirectly Council) that proper controls exist and are being followed or to identify problem areas that need to be addressed
- to meet requests for advice and guidance on new or enhancement to information systems and or processes as required, potentially exposing the City to the risk that proper controls are not built into the project and or system/process
- to assist divisions in implementing recommendations from the Auditor General
- to perform more control-assessments with divisions – four were conducted in 2005, but IA would like to do at 6-8 a year, either at a high level or of some specific area of a division or function – these co-assessments are also very effective in getting staff to think about risks and how they are managing them
- address fraud hotline complaints referred by the Auditor General’s Office in a timely manner – the number of fraud hotline complaints has increased resulting in more complaints being referred to divisions and IA

### **Priorities for Internal Audit in 2006:**

Beyond the cyclical internal audits of the City's financial/administrative processes and control co-assessments, Internal Audit has the following priorities for 2006:

- risk/controls guidance to staff on the 311 project
- support to Clerk's Office re: 2006 election
- risk/controls advice to management on new water meter pilot project
- support and assist senior management in enhancing/reinforcing ethics across the organization
- support and advice in the implementation of the Bellamy recommendations
- continued support on the Shelter Management Information System

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