

TORONTO STAFF REPORT

November 9, 2004

To: Audit Committee
From: Auditor General
Subject: 2005 Audit Work Plan

Purpose:

To provide City Council with details of the Auditor General's Audit Work Plan for the year ended December 31, 2005.

Financial Implications and Impact Statement:

There are no financial implications resulting from the adoption of this report.

Recommendation:

It is recommended that the 2005 Audit Work Plan for the Auditor General's Office be received for information.

Background:

The Auditor General's Office was created in May 2002 under By-law No. 1076-2002 approved by Council. The Auditor General is appointed by City Council and is independent of the City's administration. The Auditor General is responsible for evaluating City programs, activities and functions of Departments and Agencies, Boards and Commissions, and the Office of the Mayor and Members of Council.

The 2002 By-law requires that an annual audit work plan be submitted to City Council and provides that no deletions or amendments to the audit work plan be made, except by the Auditor General. Council, however, may add to the audit work plan by a two-third's majority vote.

In relation to financial attest audits of the City, Section 296 (4) of the Municipal Act states that “the auditor of a municipality shall not be an employee of the municipality or of a local board of the municipality”. A private sector public accounting firm now conducts attest audits of the City itself, and various City entities, including the Boards of Management of Community Centres and Committees of Management for Arenas. Consequently, these audits are excluded from the 2005 Audit Work Plan. However, the Auditor General continues to maintain an oversight role in these audits as the administrator over public accounting firm contracts.

Comments:

2005 Audit Work Plan

The Auditor General's 2005 Audit Work Plan includes information describing audit projects planned during the year as well as information related to long term audit planning, special projects and follow-up on outstanding audit recommendations. The 2005 Audit Work Plan includes four appendices as follows:

- Appendix 1: Auditor General’s Office – 2005 Audit Work Plan, includes a listing of the specific projects planned for 2005. Detailed terms of reference for specific projects will be submitted to the Audit Committee during the year.
- Appendix 2: High-Risk Audit Projects Deferred, represents a listing of potential projects not included in the 2005 Audit Work Plan because of staff resource limitations. These are projects, we believe, should be conducted as soon as possible, but due to staff limitations, are unable to complete. Depending on future priorities, these projects will be carried forward to future audit work plans.
- Appendix 3: Preliminary 2006-2010 Long Range Plan, includes audits identified in the Auditor General's 2003 Risk Assessment and projected to be included in future audit work plans.
- Appendix 4: Audits with Outstanding Recommendations, includes a listing of outstanding audit recommendations from previous audit reports.

Projects included in the 2005 Audit Work Plan provided in Appendix 1 are classified into six categories as follows:

1. Projects in Progress
2. New Projects
3. Annual Recurring Audits
4. Fraud Related Investigations
5. Follow-up Audits
6. City Council Requests

In addition to the projects listed in Appendix 1, the Auditor General is responsible for overseeing the work of the external financial attest auditors of the City, its local Agencies, Boards and Commissions, and Boards of Management of the Community Centres and the Committees of Management for the Arenas. The oversight role of the Auditor General, in connection with these attest audits, is also incorporated into the 2005 Audit Work Plan.

Risk Assessment Analysis

Determining which areas to audit and the appropriate allocation of audit resources is essential in realizing the true value of an effective audit process. In order to assess the relative importance of potential audit areas and to objectively develop an audit work plan, the Auditor General conducted a risk assessment of the City's programs and services in 2003.

The purpose of the risk assessment exercise was to ensure all areas of the City are evaluated from an audit risk perspective by using uniform criteria and to prioritize potential projects based on objective risk analysis. The 2003 City-wide risk assessment conducted by the Auditor General forms the basis for the 2005 Audit Work Plan.

High-risk areas identified in the risk assessment were considered along with information that came to our attention during 2004. As previously mentioned, several high-risk audits have not been included in the 2005 Audit Work Plan and are identified in Appendix 2. These audits are not included in the 2005 Audit Work Plan due to staff resource limitations.

Other Steps Taken in the Formulation of the Audit Work Plan

In formulating the 2005 Audit Work Plan, the Auditor General consulted with a number of internal representatives from the City's Agencies, Boards and Commissions, including the Toronto Transit Commission, the Toronto Police Service and the Toronto Public Library.

In addition, the Auditor General consulted with the external attest auditors of the Agencies, Boards and Commissions. Any issues identified during their attest audits will be considered during the audit process.

Finally, regular meetings are held with the Chief Administrative Officer's Internal Audit Director to ensure that projects in process or planned are co-ordinated and emerging issues of concern are discussed. The work of the Internal Audit Division is taken into account during the determination of the Auditor General's Audit Work Plan.

Audit Follow-Up

Follow-up on audit recommendations is important to ensure that management has taken appropriate action to implement recommendations identified in the audit report. Government Auditing Standards require audit follow-up to determine the status of outstanding audit recommendations. The Auditor General's Office is currently in the process of re-engineering the follow-up process to increase follow-up timeliness, efficiency and effectiveness.

The general framework of the proposed process includes the following steps:

- (a) Upon submission of the Auditor General's original report and management's response by the City Council, the recommendations and expected date of implementation are recorded. On a semi-annual basis (every six months), the Auditor General notifies the Chief Administrative Officer or other appropriate management representative (in the case of the Agencies, Boards and Commissions) in writing of all outstanding audit recommendations.
- (b) The responsible departmental management official provides a written status report to the Chief Administrative Officer or other appropriate management representative (in the case of the Agencies, Boards and Commissions). The written report on the status of outstanding audit recommendations is then reported to the Auditor General.
- (c) Upon notification that corrective action has been taken to implement the recommendation, the Auditor General takes the necessary steps to verify that corrective action has been taken and provides a semi-annual status report on all outstanding audit recommendations to the Audit Committee and City Council.

Implementation of this revised approach to follow-up on outstanding audit recommendations is currently underway and is included in the Auditor General's 2005 Audit Work Plan.

External Quality Control Review

Government Auditing Standards require that audit organizations provide for an external quality control review at least every three years. This review, also known as Peer Review, consists of a team of external audit professionals who assess the adequacy of the Auditor General's internal quality control system and its overall level of compliance with Government Auditing Standards.

The Auditor General expects to have this review conducted in January 2006 and is currently in the process of evaluating internal control systems to ensure compliance with Government Auditing Standards. Upon completion of the Peer Review, the Auditor General will communicate the results to the Audit Committee and City Council.

Conclusions:

The 2005 Audit Work Plan is a combination of projects in progress, new projects, annual recurring audits, fraud investigations, follow-up audits, and projects requested by City Council. In addition, the Audit Work Plan provides for the Auditor General's oversight of the City's external attest audits. Special projects included in the 2005 Audit Work Plan include efforts to re-engineer the process for following up on outstanding audit recommendations and preparation for the Auditor General's upcoming External Quality Assurance Review (Peer Review). The Audit Work Plan will be amended if additional projects of high priority are identified during the year.

We believe the 2005 Audit Work Plan provides a balance of audit work that once complete, will result in improving the overall operations of the City by strengthening management controls, improving accountability, and enhancing the efficiency and effectiveness of municipal services.

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List of Attachments:

- Appendix 1: Auditor General's Office – 2005 Audit Work Plan
- Appendix 2: Auditor General's Office – High-risk Audit Projects Deferred
- Appendix 3: Auditor General's Office – Preliminary 2006-2010 Long Range Plan
- Appendix 4: Auditor General's Office – Audits with Outstanding Recommendations

Auditor General's Office
2005 Audit Work Plan

1. Projects in Progress

The following projects were included in the Auditor General's 2004 Audit Work Plan and are currently in progress or expected to be in progress during early 2005:

Accounts Receivable Review – City-wide
Environmental Liabilities Review
Fleet Operations (Phase Two) – Corporate Services
Fleet Rental and Lease Vehicles Review – Corporate Services
Golf Operations Review
Information Technology Asset Management Program Review
Municipal Licensing and Standards Division Operational Review (Phase Two)
Payroll and Benefits (Phase Two)
Quality Control and Assurance Overpayments – Social Services
Transfer, Processing and Disposal Operations - Solid Waste Management

2. New Projects

The following new projects have been included in the 2005 Audit Work Plan:

Day Care Fees – Children's Services Division
Fines and Related Income – Toronto Public Library
Fire Services Division Operational Review
Maintenance and Administrative Controls Review – Facilities and Real Estate
Management Hiring Practices – Human Resources Division
Management of eCOPS Project – Toronto Police Service
Resident Fees and Trust Funds Review – Homes for the Aged Division
Sale of Real Estate Assets – Facilities and Real Estate
Tax Billing, Appeals and Assessment – Revenue Division
Training Program – Toronto Police Service
Trust Fund – Toronto Public Library

3. Annual Recurring Audits

Auditor General responsibilities in this area include management, co-ordination and oversight of the external attest audits of the City, its Agencies, Boards and Commissions, and the Boards of Management of Community Centres and Committees of Management for Arenas.

4. Fraud Related Investigations

Frauds or other irregularities are identified by the Auditor General as a result of ongoing audit work, notification by management, or through the Fraud and Waste Hotline.

The investigation of fraud or other irregularities will continue to receive high priority through 2005. It is difficult to project the extent of investigative work required during 2005, as this depends on the extent of fraud identified.

The Auditor General is currently in the process of revising the City's Fraud Policy and the 2005 Audit Work Plan, which includes an allocation of time for making the necessary revisions.

5. Follow-up Audits

The Auditor General's Office conducts periodic follow-up audits on recommendations included in previous audit reports. Follow-up audits are conducted to ensure issues identified in previous audit reports have been addressed. A complete listing of reports with outstanding audit recommendations is included in Appendix 4 of this report.

6. City Council Requests

From time to time the Auditor General receives requests for audit work or information from the City Council. An allocation of time is set aside for requests of this nature.

Auditor General's Office
2005 Audit Work Plan

High-Risk Audit Projects Deferred

The projects listed below include areas considered to be of a "high risk" and should be completed immediately. However, these have been deferred to future audit work plans due to a lack of adequate audit resources:

- Construction Contracts Review
- Internet Access Review
- Rental Income Review – Facilities and Real Estate Division
- Risk Assessment of the City's Agencies, Boards and Commissions
- Animal Services Review

Auditor General's Office
2005 Audit Work Plan

Preliminary 2006-2010 Long Range Plan

Accounting and Controls Relating to Provincial Capital Grants
Accounting and Controls Relating to Provincial Operating Grants
Accounting Division – Finance Department
City's Business Continuity Plan
Collections, Accounting, Refunds, Payments – Tax/Water/Parking Tags
Community Planning – Urban Development Services
District Engineering Services – Works and Emergency Services
Ferry Services Fees
Fire Prevention Division
General Internal Controls at Agencies, Boards and Commissions
Inventory Controls at various locations
Major Capital Project Management
Parking Fees – On-street and Off-street
Procurement Reviews, Agencies, Boards and Commissions, including Toronto Library, Toronto Parking Authority, Toronto Zoo, and Exhibition Place
Professional Development and Training – Fire Services
Quality Control and Systems Planning – Urban Development Services
Rental and Concessions Income
Reserves and Reserve Fund Controls and Administration
Revenue at Community Centres and Arenas
SAP Review – Opportunities for Economies of Scale with City's Agencies, Boards and Commissions
Selection and Hiring of Professional and Consulting Services, Agencies, Boards and Commissions
Surveys and Mapping Services – Works and Emergency Services

Theatre Admission Revenue

Toronto Parking Authority:

- Long Term Investments
- Property Acquisitions and Disposals

Toronto Public Health:

- Review of Non-mandatory Programs
- Dental and Oral Health Services

Toronto Water

- Water Pollution Control
- Water Supply

Transportation Planning

Transportation Services

Treasury and Financial Services, Review of Insurance and Risk Management

Water/Parking Tag – Water Billing, Meter Reading, Data Entry

Auditor General's Office
2005 Audit Work Plan

Audits with Outstanding Recommendations

Access and Equity Review of the Implementation Status of Final Report Rec., January 9, 2004

Assessment of the Adequacy and Effectiveness of Financial and Administrative Controls – Toronto Parking Authority, September 16, 2002

Audit of the Toronto Police Service's Public Complaints Process, September 10, 2002

Audit Recommendations and Initiatives Relating to Toronto Computer Leasing Inquiry, February 13, 2004

Auditor General's Response to SAP Financial and Human Resources / Payroll – Status of Recommendations, December 31, 2003

Comments Relating to the Toronto Parking Authority Management's Response to the Auditor General, March 25, 2003

Competition Bureau Investigation, June 19, 2002

Consulting Contract Review – LRTS Report, April 21, 2004

Contract Compliance Review – Safety Footwear, September 4, 2003

Courtesy Envelopes – Toronto Parking Authority, May 14, 2002

Economic Development – Receivables and Revenue Cash Controls Review, Mar 19, 2004

Employee Separation Program Payment Review – In Camera, November 12, 2003

Environmental Issues and Audit Plan, May 30, 2002

Fleet Operations Review – Phase One, November 18, 2003

Follow-up Review of the Investigation of Sexual Assaults, March 19, 2003

Food Safety Program Follow-up Review – Toronto Public Health (June 2000), Nov 8, 2002

Forensic Audits on Various Consulting Contracts – In Camera, May 31, 2002

Information Technology Services Unit Review – Toronto Police Service, December 2002

Interim Report on Oracle Database Software Acquisition (joint report Chief Administrative Officer and City Auditor), February 6, 2002

Investment Policy Compliance by Agencies, Boards and Commissions, January 10, 2002

Investment Policy Compliance, May 29, 2002

Investment Policy Compliance, August 25, 2003

Leasing Contract Between City of Toronto and MFP – Councillors’ Computer Equip, January 28, 2002

Oracle Database Review – Security Controls and Other Issues, December 12, 2003

Oracle Database Software Acquisition – Additional Information, March 8, 2002

Petty Cash Counts, February 12, 2002

Processes Followed in Relation to the Upgrade to SAP Version 4.6, February 21, 2002

Procurement Processes Review – City of Toronto, March 31, 2003

Reserves and Reserve Funds Follow-up Review, August 22, 2002

Revenue Controls Review – Toronto Police Service, January 8, 2002

Review of Computer Leasing Contracts Between City of Toronto and MFP, February 5, 2002

Sick Leave Benefits Liability Review, August 27, 2002

Telephone System Selection for the City of Toronto – Forensic Review, December 12, 2003

Toronto Atmospheric Fund Follow-up Review (Detailed to Client), January 7, 2002

Toronto Maintenance Management System Application Review, March 30, 2004

Toronto Public Library – Review of (1) Year-end Spending, (2) Fleet Maintenance, (3) Use of Consultants, and (4) Budget for Maintenance Repairs, April 9, 2002

TradeLink Toronto – Economic Development, Culture and Tourism, September 3, 2003

VIACOM Outdoor Canada – Contract Compliance Review, November 7, 2002

Water and Wastewater Reserves and Reserve Funds, September 4, 2003

Works Best Practices – Quality Assurance/Quality Control, September 3, 2002