

2007 Audit Work Plan

Date:	January 11, 2007
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to provide City Council with details of the Auditor General's Audit Work Plan for the year 2007. The Work Plan is attached as Appendix 1 and Appendix 2 to this report.

The 2007 Audit Work Plan is a combination of projects in progress, new projects, annual recurring audits, various investigations and projects requested by City Council. Our work Plan also includes a formal process to ensure that recommendations contained in audit reports have been implemented. Details of this process are reported to the Audit Committee.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive the 2007 Audit Work Plan attached as Appendix 1 and Appendix 2.

FINANCIAL IMPACT

The recommendations in this report have no financial impact beyond the amount provided in the Auditor General's 2007 budget request.

ISSUE BACKGROUND

Section 177 of the *City of Toronto Act* formalized the appointment of an Auditor General for the City of Toronto. Under Section 178 of the *City of Toronto Act*, the Auditor General is responsible for “assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

Even though the position of Auditor General is now required under legislation, the Auditor General’s Office was initially created at the City of Toronto in May 2002, under By-law No. 1076-2002.

The 2002 by-law requires that an annual audit work plan be submitted to City Council for information 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.

The Audit Work Plan as presented in this report provides City Council with an overview of how the resources allocated to the Auditor General’s Office will be used during 2007.

COMMENTS

The Auditor General’s 2007 Audit Work Plan contains details of audit projects planned during the year. Certain of these projects will not be completed during 2007, as some will commence later in the year and will not be finalized until 2008.

Projects included in the 2007 Audit Work Plan provided in Appendix 1 are classified into six categories as follows:

1. Audit Projects in Progress
2. New Audit Projects
3. Annual Responsibilities
4. Reports Requested by City Council
5. Follow-up of Audit Recommendations
6. Fraud Related Investigations

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 Agencies, Boards and Commissions, the 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 incorporated into the 2007 Audit Work Plan.

Conclusion

The Audit Work Plan is intended to be flexible and will be amended if additional projects of high priority are identified during the year. The 2007 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.

CONTACT

Jeffrey Griffiths, Auditor General

Tel: 416-392-8461; Fax: 416-392-3754; E-mail: Jeff.Griffiths@toronto.ca

Jerry Shaubel, Director, Auditor General's Office

Tel: 416-392-8462; Fax: 416-392-3754; E-mail: jshaubel@toronto.ca

SIGNATURE

Jeffrey Griffiths, Auditor General

07-AAS-02

ATTACHMENTS

Appendix 1: Auditor General's Office – 2007 Audit Work Plan

Appendix 2: Auditor General's Office – 2007 Audit Work Plan –
Audit Projects in Process and New Audit Projects

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AUDITOR GENERAL'S OFFICE
2007 AUDIT WORK PLAN

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Audit Projects in Progress and New Audit Projects

The Selection of Audit Projects

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 comprehensive 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 were evaluated from an audit risk perspective by using uniform criteria and to prioritize potential projects based on an objective risk analysis. During this process, we identified 120 separate auditable units within the City's operations.

The 2003 City-wide risk assessment conducted by the Auditor General forms the basis for the 2007 Audit Work Plan. High-risk areas identified in the risk assessment were considered along with information that has come to our attention since 2003. While risk assessments are informally conducted on an ongoing basis, we anticipate conducting a comprehensive reassessment of risk in 2008.

An important component in any risk assessment model is the selection of risk factors against which each audit unit is evaluated. The selected factors were compared with those being used by other North American cities, as well as private sector audit organizations. As a result of this process, the following factors were used in the risk evaluation process of each of the 120 identified audit units throughout the City:

- the extent of the revenues, expenditures, assets or liabilities of the entity. In other words, the materiality of the operations;
- an evaluation of the degree of liquidity of each entity's assets. This would include, for example, the extent of cash being handled or the susceptibility of other assets to misappropriation;
- the adequacy of documented policies and procedures in each unit;
- an initial evaluation as to the quality of the internal controls within each entity;
- results from prior audits;
- the potential for liability against the City;
- an initial evaluation of the human resource competence both in terms of quality and quantity;
- the complexity of the operations of each entity; and
- the visibility of the program as reflected in its public and political sensitivity.

In evaluating audit risk, interviews were conducted with senior staff throughout the Corporation. These interviews focused on each of the above risk factors. Specific interview questionnaires were developed in order to ensure that each risk factor was adequately addressed during the interview and also to ensure that where possible the process was consistent throughout the City. Senior staff in the Auditor General's Office conducted approximately 130 interviews. The results of each interview were documented and shared with senior staff of the Corporation.

In considering the risk assessment, the above risk factors were not evaluated equally as certain of them was viewed to be of more significance than others. Consequently, the process involved the determination of a specific weighting to each of the factors.

Information obtained from each interview was tabulated and each audit unit was assigned a final ranking. This ranking formed the basis for the inclusion of projects in the annual audit work plan.

The extent of the audit projects subject to review is dependent on:

- approval of the Auditor General's budget as submitted;
- the extent of fraud or forensic investigations which may be required during the year;
- the number of special requests approved by City Council; and
- other issues which may emerge during the year.

In determining the number of projects included in the annual work plan, the estimated time required to conduct each review is allocated to the hours of productive staff time available. Estimated time has also been allocated to fraud investigations and special requests from City Council.

Review of the City's Agencies, Boards and Commissions

The new *City of Toronto Act* excludes the Toronto Police Service, Toronto Public Library Board, and the Toronto Board of Health from the Auditor General's scope. All three of these entities were previously within the scope of the Auditor General's Office. At its meeting of February 5, 6, 7, and 8, 2007, City Council approved the expansion of the Auditor General's mandate to permit undertaking of reviews of operations of City agencies at the request of their boards and that any resulting recommendations be submitted to the respective board. In addition, Toronto Hydro and the Toronto Community Housing Corporation were not previously included in the Auditor General's mandate. At the same February Council meeting, the Auditor General was designated to be the City's representative under the shareholder directions of Toronto Hydro, Toronto Community Housing Corporation and their subsidiaries.

The Toronto Transit Commission

The Auditor General has met with the Chief Auditor of the Toronto Transit Commission in order to review his 2007 work plan. The 2007 work plan of the Commission was developed using the same methodology as the risk assessment process developed by the Auditor General. The work plan developed by the Chief Auditor at the Commission, in our view, provides an appropriate level of audit coverage for 2007. The Chief Auditor of the Commission and the Auditor General, as has been past practice, will meet on a regular basis throughout the year to review audit reports issued and deal with any emerging issues.

In addition, the Auditor General has also met with the external attest auditors of the Commission. Any issues identified by them during their attest audit will be considered during the audit process of both the Auditor General and or the Chief Auditor of the Commission. These meetings will continue during 2007.

The Auditor General is currently in the process of coordinating a review at the Toronto Transit Commission on the way the Commission manages its information technology projects.

The Toronto Police Service

The Auditor General has also met with the Chief of Police, the Executive Command and the head of the Audit and Quality Assurance Unit at the Toronto Police Service. The purpose of the meeting was to discuss the work plan of the Audit and Quality Assurance Unit during 2007 and to determine whether or not there were audit issues which needed to be addressed. As a result of these discussions, we have included in our work plan a review of the Court Services function at the Toronto Police Service.

In addition, the external auditors for the City conduct attest audit work at the Toronto Police Service. Any issues identified by them are communicated to the Auditor General's Office for appropriate follow-up.

The Auditor General has previously conducted the following reviews at the Toronto Police Service:

- Enterprise Case and Occurrence Processing System (eCOPS) Project Review
- Follow-up Review on the October 1999 Report Entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service"
- Overtime
- The Public Complaints Process
- The Evaluation of the Air Support Unit Pilot Project

Other Agencies, Boards and Commissions

While Agencies, Boards and Commissions were excluded from the 2003 risk assessment the Auditor General has conducted work in certain of these agencies over the past number of years. Ongoing discussions are held with the external attest auditors of each of these entities throughout the year. If emerging issues of concern are identified, depending on other priorities, audit resources will be redeployed to address them.

The Auditor General has previously conducted reviews at the:

- Toronto Zoo
- Toronto Library Board
- Toronto Parking Authority
- Toronto Public Health

Annual Responsibilities

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

During 2007, the Auditor General will be required to manage a Request for Proposal process for audit services for the years 2008 to 2012 inclusive.

Reports Requested by City Council

In September 2004, City Council requested the Auditor General to add to his 2007 Audit Work Plan a review of the financial statements filed by Members of Council after the 2006 election and report to Council on any other irregularities or inconsistencies contained therein.

This is a relatively significant project, which is required to be conducted within a compressed time frame.

Follow-up of Audit Recommendations

Follow-up of audit recommendations is important to ensure that management has taken appropriate action to implement recommendations identified in an audit report. Government Auditing Standards require an audit follow-up process to determine the status of outstanding audit recommendations. The follow-up of recommendations is also a requirement of the City's Audit Framework Policy approved by City Council.

The Auditor General's Office has implemented a formalized follow-up process and will be reporting to the Audit Committee in mid 2007 on the status of all recommendations made at the City's Agencies, Boards and Commissions since January 1, 1999. Similar reporting for the City itself was done in June of 2006 and we will be updating the status of all outstanding recommendations in mid 2007.

The follow-up process includes the following:

- (a) Upon submission of the Auditor General's original report and management's response to City Council, the recommendations and expected date of implementation are recorded. Annually, the Auditor General notifies the City Manager or other appropriate management representative (in the case of the Agencies, Boards and Commissions) in writing of all outstanding audit recommendations.

- (b) The responsible division management official provides a written status report to the City Manager 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 status report on all outstanding audit recommendations to the Audit Committee and City Council.

Time is included in the Auditor General's 2007 Audit Work Plan for the necessary verification procedures to ensure adequate follow-up of previously issued recommendations.

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 receives high priority. It is difficult to project the extent of investigative work required during 2007, as this depends on the concerns identified.

The Audit of the Auditor General

In order to ensure that the Auditor General is subject to an independent audit process, the Office of the Auditor General is subject to audit in two different ways:

- an external quality control review; and
- an external financial audit.

External Quality Control Review

In conducting our audit work, we are particularly mindful of the need to ensure that all of our work is conducted in accordance with *Government Auditing Standards*. These standards require that audit organizations provide for an external quality control review at least every three years. This 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 Peer Review conducted on the Auditor General's Office in 2006 was the first time that any Canadian municipality has been reviewed using this process.

The external quality assurance review process includes a complete review of the Auditor General's internal quality control policies and procedures. The review considers monitoring procedures, audit reports, documentation, and other necessary documents related to compliance with *Government Auditing Standards*. The review also includes interviews with various levels of the Auditor General's professional staff, City management and members of the Audit Committee. The review team selects a cross section of audit work performed by the Auditor General's Office and provides an opinion on overall compliance with *Government Auditing Standards*.

The review team is comprised of professional local government auditors from other organizations throughout North America.

The on-site portion of the Auditor General's peer review took place during the week of February 20, 2006. Following the week-long on-site review process, a written report was issued to the Auditor General communicating the results of the review. This report and the Auditor General's written response is available at:

http://www.toronto.ca/audit/reports2006_sub4.htm

These reviews are conducted at no cost to the City other than out-of-pocket expenses. There is an expectation, however, that the City will reciprocate and provide a staff member to participate in a team to conduct an external quality control review at another North American city. The audit work plan provides for this work.

External Financial Audit

Conducting a financial audit of the Auditor General's Office, became a requirement with the adoption of the new audit framework for the City in November 2002. The objective of this annual audit is to provide Audit Committee and Council assurance that the Auditor General's Office is carrying out its operations in compliance with City policies and procedures. The City Manager is responsible for engaging the auditor and providing the resulting report to Audit Committee.

**AUDITOR GENERAL'S OFFICE
2007 AUDIT WORK PLAN**

AUDIT PROJECTS IN PROCESS AND NEW AUDIT PROJECTS

1. PROJECTS IN PROCESS

Audit Project	Project Description
Review of Police Training, Opportunities for Improvement – Toronto Police Service	This report relating to the review of training at the Toronto Police Service will be presented to the Toronto Police Services Board at its January 25, 2007 meeting. The report includes 39 recommendations and is a first step towards improving the training process at the Police. The Chief of Police has reviewed the report and is in agreement with the majority of the recommendations.
Improving the Procurement Process – Unbalanced Bids	This report is intended to address the potential implications to the City of awarding bids to contractors which are unbalanced. It is intended that this report will be issued at the first Audit Committee of 2007.
Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract	This report will be issued to the Audit Committee during the first quarter of 2007. This report is one of a series of audits relating to the management of construction contracts.
Property Tax Appeals and Refunds Revenue Services Division	<p>The purpose of this review is to review processing related to assessment and tax appeals and related refunds.</p> <p>The objectives of the review are to:</p> <ul style="list-style-type: none"> - assess compliance with applicable laws, regulations and City policies; - review related internal controls and operating procedures; and - assess the efficiency and effectiveness of property tax appeal and refund processes.
Solid Waste Management Services – Review of Major Contracts	The objective of this review is to assess the extent to which proper management controls were in place to ensure that contracted services were effectively managed.

Audit Project	Project Description
Payroll Processing Review – Phase Two – Review of the Administration of Employee Benefits	The objective of this review is to assess whether adequate systems and procedures exist to manage employee benefit plans economically and in accordance with the terms of their respective plans. Additionally, our audit will evaluate whether the contract with the benefit administrator is properly managed and contractual obligations are fulfilled.
Day Care Fees – Children’s Services Division	The primary objective of this audit is to review the management controls that ensure child care subsidies available to eligible families are being administered effectively and efficiently by the Children’s Services Division.
Review of City Employee Internet Access	This is a review of City employees’ internet use and an assessment of compliance with the City’s Acceptable Use Policy. The report will be issued to the June 2007 Audit Committee meeting.
Toronto Water - Wastewater Treatment	This project will assess whether the City’s wastewater treatment program is being managed economically, efficiently and in compliance with City policies and legislative requirements. The audit is focusing on controls over payroll, overtime and attendance management and contract management and payment processes.
Management of Information Technology Projects – Toronto Transit Commission	The objective of this review is to review Toronto Transit Commission (TTC) practices and procedures related to the development and implementation of information technology projects in order to identify opportunities for improvement. The TTC Information Technology Services Department is responsible for development and implementation of information systems and related technology services to support TTC programs and operations. The Department’s primary role is to manage a broad range of system development and “state of good repair” capital projects.

Audit Project	Project Description
Contract Management – Various and Ongoing	The Auditor General is committed to an ongoing review of major construction contracts to ensure that all such contracts are conducted with due regard for economy, efficiency and effectiveness.
Peer Review Participation	One staff member will participate for one week in the review of the audit process at a North American city. Other than staff time, this is at no cost to the City.

2. NEW AUDIT PROJECTS

Audit Project	Project Description
Toronto Police Service – Review of Court Services	<p>The Toronto Police Chief requested the Auditor General to conduct a review of the management and administration of staff resources in the Court Services Unit. The Toronto Police Services Board approved the Chief's request at its January 25, 2007 meeting. Consequently, in view of the extent of funds required to administer the Court Services Program, the Auditor General's 2007 Audit Work Plan includes a review of this area.</p> <p>The objectives of this review are to assess and determine the extent to which financial resources are deployed cost effectively in meeting the legislated responsibilities of the Court Services Unit.</p>
Municipal Licensing and Standards - Integrated Business Management System	<p>Integrated Business Management System (IBMS) is a workflow management tool used to track major projects and provide project summaries to various managers throughout the City. This system is also an important source of official reports to Statistics Canada and City Council and used by over 1,100 users in many city divisions including Planning, Buildings and Municipal Standards.</p> <p>The objective of this review is to assess the efficiency and effectiveness of procedures and controls in effect to ensure the confidentiality, availability and integrity of information maintained in the IBMS system.</p>

Audit Project	Project Description
Toronto Water - Compliance with Sewer Use By-law	This project is to determine if the Division's enforcement activities, including mandatory pollution prevention planning, are effective in meeting the requirements of the City's Sewer Use By-law.
Review of the Implementation of Recommendations of the Final Report of the Task Force on Community Access and Equity	<p>In January 1998, City Council approved the establishment of a Task Force on Community Access and Equity. The Task Force's Terms of Reference, adopted as amended by Council in March 1998, described the goals and objectives of the Task Force as identifying the necessary policies, structural functions, program priorities and evaluation processes for implementing access and equity in the City of Toronto.</p> <p>The Task Force submitted a draft report, containing 89 recommendations, to the then Strategic Policies and Priorities Committee in January 1999.</p> <p>This review will be conducted to determine the status of the implementation of these 89 recommendations.</p>
Use and Control of Sole Source Contracts	This audit will satisfy the request made by Council at its meeting of July 25, 26, and 27, 2006 that the Auditor General review the issuance of sole source contracts and the checks and balances that are in place.
Information Technology Disaster Recovery Plan	The objective of this review is to determine the status of the City's Information Technology Disaster Recovery Plan. Our review will include an assessment of the overall strategy and approach taken to develop the plan as well as plan accountability, and completeness. We will also assess whether the effectiveness of the plan is tested on a regular basis.
Capital Program, Parks, Forestry and Recreation	This review will include an assessment of how well the Division manages its capital program with due regard to economy, efficiency and effectiveness.
Social Services - Overpayments Phase II - Active Clients	This review will examine how overpayments for clients currently in receipt of social assistance can be prevented.

Audit Project	Project Description
Review of Major City Revenue Streams	The objective of this review is to ensure that adequate controls exist in billing for goods and services provided by the City, collecting revenues, and ensuring that billings and collections are recorded and accounted for in a timely manner.
2006 Election Expenses of Members of Council	At its meeting of September 28, 29, 30 and October 1, 2004, Council directed the Auditor General to review the financial statements filed by Members of Council after the 2006 election and report to Council on any other irregularities or inconsistencies contained therein.
Pandemic Influenza Plan Audit	The objective of this review is to provide a high level perspective on the City's efforts in planning and preparing for a pandemic. A major component of this audit involves reviewing the planning and preparedness activities of other comparable municipalities and comparing them with the City's current plan. Our report will also include a status report on the City's planning and preparedness activities in the event of a pandemic.
Contract Management – Various	The Auditor General is committed to an ongoing review of major construction contracts to ensure that all such contracts are conducted with due regard for economy, efficiency and effectiveness.