



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Auditor General's Office – 2012 Budget

Date:	June 13, 2011
To:	Audit Committee
From:	Jeff Griffiths, Auditor General, Auditor General's Office
Wards:	All
Reference Number:	

SUMMARY

This report provides information relating to the 2012 budget for the Auditor General's Office and a budget for approval by the Audit Committee.

In relation to the Budget of the Auditor General's Office, three separate reviews are underway which may have an impact on the Auditor General's 2012 budget. These reviews are as follows:

In May 2009, City Council approved a report entitled “A Policy Framework for Toronto Accountability Officers”. One of the recommendations contained in the report directs that:

“City Council authorize the City Manager and Deputy City Manager and Chief Financial Officer, in consultation with the accountability officers, to review and research best practices respecting setting aside a percentage of the City’s budget for Toronto’s accountability functions and report back to Executive Committee”.

On June 14, 2011 City Council adopted the following:

“City Council request the City Manager to review, and report to the Audit Committee on October 20, 2011, on the operations of each one of the internal audit functions that report to management, and ascertain whether there may be benefits to consolidating those functions, such a review to consider the reporting structure particularly in the context of ensuring that all functions are able to operate independently from management.

City Council request that, during the review, the City Manager review the level of resources for each entity in order to ensure that levels are commensurate with responsibilities and make recommendations for reallocation of staff if appropriate. In consultation with the Auditor General, such a reallocation give consideration to the resource requirements of the Auditor General's Office.”

It is anticipated that these reviews will be finalized in 2011.

The Auditor General's 2012 budget request prior to the completion of the above reviews is for \$4,176,200 which is \$107,000 (2.5 per cent) less than the Office's 2011 Council approved budget.

RECOMENDATION

The Auditor General recommends that:

1. Subject to the results of the current review of the City's audit functions by the City Manager, the Audit Committee approve the attached 2012 budget for the Auditor General's Office and forward it to Budget Committee.

Financial Impact

The 2012 budget for the Auditor General's Office is \$4,176,200 which is \$107,000 less than the 2011 final approved budget of \$4,283,200. This amount is subject to the results of the current review of the City's audit functions by the City Manager. Consequently, it is possible that an amended budget may be submitted to Audit Committee depending on the results of this review.

The proposed budget contains audit fees payable to PricewaterhouseCoopers in the amount of \$328,200 relating to the external financial audit. The Auditor General has no control over the external audit fees paid as the amount is pre-determined based on a Council approved contract. For the 2011 external financial audit, fees increased from \$306,048 to \$328,200 an increase of 7.2 per cent.

An analysis of the budget request is as follows:

	2012 Budget Request	2011 Approved Budget	Decrease	%
Budget	\$4,176,200	\$4,283,200	(\$107,000)	(2.5)

The majority of the Auditor General's 2012 budget request consists of salaries and benefits. If the amount of \$328,200 for external audit fees is excluded from the budget of the Auditor General's Office, the percentage of the salaries and benefits to the total budget is just under 97 per cent.

The Auditor General's Office currently has one vacancy which was gapped in 2011 and will continue to be gapped in 2012. Two additional vacancies are expected in January 2012 due to the retirement of two incumbents. The remainder of positions are filled.

In order to achieve a ten per cent reduction on the 2011 approved net operating budget, the 2012 budget request would have to be reduced by \$428,320 to \$3,854,880. The impact on the 2012 budget would be the elimination of the two upcoming vacancies as well as two additional staff positions. These additional positions would require the termination of current staff and would significantly impact the extent of audit work including the operation of the Fraud and Waste Hotline.

The 2012 budget as presently submitted reflects the continued gapping of the 2011 vacancy plus the gapping of the two anticipated vacancies which are expected to occur in early 2012.

ISSUE BACKGROUND

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. *The City of Toronto Act, 2006* has subsequently formalized the establishment of the Auditor General. Section 177 of the Act requires that "The City shall appoint an Auditor General".

The Auditor General is responsible for evaluating City programs, activities and functions of Divisions, Agencies, Boards, Commissions, and the Offices of the Mayor and Members of Council.

The Auditor General's Office reports directly to Council through the Audit Committee and, as such, is independent from management. As an independent office, the Auditor General submits an annual audit work plan to the Audit Committee for review and an annual budget for review and approval. The Auditor General's Budget is forwarded directly to Audit Committee without a detailed review by the City's Financial Planning Division. This process was approved by City Council in 2001.

Detailed information relating to the 2012 budget is contained in the attached document, entitled "Auditor General's Office – 2012 Budget" (Appendix 1).

COMMENTS

BENEFITS OF AN EFFECTIVE AUDIT PROCES

Reviews, investigations and audits conducted by the Auditor General's Office have benefited the City of Toronto in a variety of ways.

Audit recommendations identify ways to:

- maximize City revenues or identify opportunities for new revenues or cost savings
- manage or utilize City resources, including public funds, personnel, property, equipment and space in an economical and efficient manner
- identify causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies and procedures.

Audits assist management to:

- safeguard assets
- check the accuracy and reliability of accounting data
- detect transactions and access to assets that could result in unauthorized acquisitions, use or disposal of assets, and
- ensure compliance with laws, regulations, policies and procedures

IMPACT OF POTENTIAL BUDGET REDUCTIONS

The budget of \$4,176,200 recognizes the financial realities at the City and has been prepared on that basis. However, it is important that Council is made aware that any reductions in the Auditor General's budget will have financial consequences elsewhere in the City through reduced audit work.

On a City wide basis it is anticipated that the 2012 budgets of City Divisions will result in staff decreases throughout the City. Staff reductions have the potential to impact internal management controls particularly where segregation of duties and an adequate level of supervision is compromised. In order to compensate for such situations audit resources should be increased and not decreased.

As outlined in Appendix 1 to this report, the current staffing level at the Auditor General's Office is significantly less than almost all major Cities in North America and any additional reduction will accentuate this further.

In terms of value for money the Auditor General's Office over the years has very clearly demonstrated that the cost savings/revenue increases identified through its audit work are significantly in excess of its annual budget.

Appendix 2 attached to this report lists the audit reports issued by this office since 2006. Additional reductions to the budget of the Auditor General's Office will have a future impact on the number of reports produced by the office and will increase the backlog of audit projects.

Many of the audit reports prepared by the Auditor General have resulted in significant cost savings. Further, while certain audit reports have resulted in cost savings, other benefits related to the avoidance of future costs, improvements to internal controls as well as the protection of City assets have also occurred.

The Auditor General prepares an annual report entitled "Auditor General's Office – Benefits to the City of Toronto", (the Benefits Report) which outlines the extent of the benefits, financial and otherwise, to the City of the Toronto as a result of the audit process. The 2010 report was tabled with the Audit Committee on February 22, 2011 and is available at www.toronto.ca/audit

Costs savings and/or revenue increases as a result of audit reports occur on an annual basis or on a one time basis. While the attached listing of reports on Appendix 2 specially outlines reports issued from 2006 to 2011, the City continues to benefit from annual cost savings identified in reports from as far back as 2000 and prior to 2006. Details are provided in the Benefits Report.

More recent examples of annual cost savings identified as a result of various audits are as follows:

Procurement Policies and Procedures, Toronto Housing Corporation	\$4,000,000*
Insurance and Risk Management	\$ 600,000
Employee Expenses, Toronto Housing Corporation	\$ 200,000
Police Paid Duty	\$2,000,000
Management of Information Technology Projects – TTC	\$1,700,000
Court Services Review	\$ 900,000
Review of Attendance Management Program	\$ 615,000
Review of Police Training	\$1,200,000
Review of Wastewater Treatment Program	\$ 740,000
Management of various construction contracts	\$2,700,000
Internet Usage Review	\$1,900,000
Operational Review – Toronto Fire Services	\$2,000,000
Review of Administration of Leases	\$1,000,000
Fines and Income Review – Public Library	\$ 200,000

(*An analysis of the calculation of the savings generated from the audit of the Toronto Community Housing Corporation are provided on Appendix 3 to this report).

Further, it is important to understand that these savings occur on an annual basis and are not one time savings. One time cost savings are in addition to annual savings.

As indicated in the Benefits Report, onetime cost savings have been as follows:

2006	\$410,000
2007	\$118,000
2008	\$715,000
2009	\$338,000
2010	\$443,000

Other reports issued by the Auditor General have produced benefits which in many cases are difficult to quantify. These include:

The Review of the Investigation of Sexual Assaults – A Decade later
Review of the SAP Competency Centre
City Purchasing Card Program
Managing the Recruitment of Non-Union Employees
Review of Disposal of Surplus IT Equipment
Audit of City Performance in Achieving Access, Equity and Human Rights Goals

Each one of these reviews has significant benefits which are not necessarily financially related.

THE REVIEW OF THE MANAGEMENT AUDIT PROCESS BY THE CITY MANAGER

While the review of the City wide management audit process by the City Manager's office is being conducted independently from the Auditor General's Office initial discussions have taken place between the City Manager and the Auditor General. These discussions have focussed on the resource requirements of the Auditor General rather than the levels of staffing of the various management internal audit divisions. In the context of scarce resources throughout the City the proper allocation of resources commensurate with responsibilities is the challenge that needs to be addressed. It is anticipated that this review will impact the staffing levels of the Auditor General's Office.

THE FRAUD AND WASTE HOTLINE

The Auditor General's Office, as one of its responsibilities, operates the City's Fraud and Waste Hotline Program. The Hotline Program has helped reduce losses and protect City assets. The activities of the Fraud and Waste Hotline Program have increased significantly during 2011. The number of calls to the hotline in the first six months of 2011 approximate the number of calls received for a full twelve months in 2010.

The City of Toronto established the Hotline Program with Council's support to promote an ethical culture and assist with the detection and prevention of wrongdoing involving City resources. However, it is becoming increasingly difficult to respond on a timely basis due to the number of complaints received.

Any reduction of staff, through gapping or otherwise, will impact the integrity of the programme and will make it very difficult to operate effectively. Quite frankly, if complainants begin to lose confidence in the integrity of the Hotline Program, its effectiveness will be compromised.

The recent enactment of a by-law pertaining to whistleblower protection is an important step in ensuring that the Fraud and Waste Hotline is effective. The by law will serve no purpose if the level of staff available to manage the hotline programme is inadequate. It is critically important that the hotline is appropriately resourced.

CONCLUSION

The Auditor General's Office is not adequately resourced. While appreciative of the financial constraints at the City the current staffing levels and in particular the staffing levels in 2012 under which the Office may be forced to operate are not appropriate.

Under all available yard sticks whether it be legislative requirements in other jurisdictions or comparisons with other municipalities the level of staff in the Auditor General's Office in relation to the audit work required is inadequate. Based on the cost savings identified in this report, which are examples only, the return on the investment of funds in the Auditor General's Office is significant. The recent Benefits Report indicates that for each \$1 invested in audit costs the return in relation to cost savings is over \$5.

Finally, in validation of the views of the Auditor General the Mayors Fiscal Review Panel in its report entitled "Blueprint for Fiscal Stability and Economic Prosperity- a Call to Action", dated February 2008 independently stated that "the City should increase the budget for the Auditor General's Office to enable it to complete more efficiency audits and drive more savings".

This recommendation has not been acted upon.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

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ATTACHMENTS

Appendix 1 – Auditor General's Office – 2011 Budget

Appendix 2 – Auditor General's Office – Audit Reports Issued 2006-2011

Appendix 3 – Auditor General's Office –Toronto Community Housing Corporation –
Estimated Cost Savings