



# AUDITOR GENERAL'S REPORT INFORMATION ONLY

## Future Audit of Toronto Hydro

<b>Date:</b>	February 18, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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The Auditor General has legislated responsibility to provide independent oversight and verify that public funds are safeguarded and value for money is achieved in the operations of the City or its Agencies and Corporations under Section 178(1) of the *City of Toronto Act*:

[178. \(1\)](#) 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. 2006, c. 11, Sched. A, s. 178 (1).

The Auditor General fulfills her oversight responsibilities by conducting audits and investigating complaints of alleged wrongdoing received through the Fraud and Waste Hotline Program. The Auditor General prioritizes audits based on the importance of the service to the City, the amount of audit coverage the organization has had from the Auditor General, the amount of expenditures and the risk that the service would not be provided in an economical, efficient and effective manner.

The Auditor General's annual audit work plans have included audits of various corporations such as Toronto Community Housing and Build Toronto. An audit of Toronto Hydro Corporation (Toronto Hydro) has never been conducted despite the size and complexity of the organization.

The Auditor General's ability to audit City Agencies and Corporations, such as the Toronto Police Services Board, Public Library Board, Board of Health and Toronto Hydro Corporation is currently restricted by the provisions of the *City of Toronto Act*,

2006 (COTA), incorporated into the *Toronto Municipal Code, Chapter 3, Accountability Officers*.

City Council approved proposed amendments to COTA, at its meeting of September 30, October 1 and 2, 2015. These amendments will be submitted to the Province of Ontario, as part of the 5-year COTA Review, to extend the Auditor General's jurisdiction to conduct audits of the Boards of Police, Library and Health. In anticipation of the actual amendments to the legislation, the Auditor General has been liaising and working with these Agencies to identify risks to determine whether an audit should be undertaken in specific areas.

Similar amendments have not been proposed with respect to Toronto Hydro.

Under the *Toronto Municipal Code, Chapter 3*, the Auditor General may only undertake an audit of Toronto Hydro or its subsidiaries upon specific direction from Council:

*Section 3-15, Responsibilities:*

*“C. The Auditor General shall only undertake an audit of the Toronto Hydro Corporation and its subsidiaries upon specific direction from Council in relation to: [Amended 2013-06-13 by By-law No. 774-2013]*

- (1) A perceived breach by Toronto Hydro Corporation of the shareholder direction; or*
- (2) A specific purpose or project where the Auditor General has not been able to obtain the necessary information either:*
  - (a) Through the shareholder direction reporting mechanisms; or*
  - (b) Through inquiries to senior management of the Toronto Hydro Corporation; or*
  - (c) Through a request from Council to the Chair of the Toronto Hydro Corporation.”*

The Auditor General performs audits in accordance with Government Auditing Standards that provide specific requirements governing the audit process to ensure audits are conducted in an independent manner. These requirements include identifying fraud risks and obtaining sufficient and appropriate audit evidence to support conclusions and recommendations.

While the *Municipal Code* enables the Auditor General to make inquiries of Senior Management of Toronto Hydro “for a specific purpose or project” including an audit or investigation, these inquiries are of limited value, despite the cooperation of Senior Management. Without undertaking formal audit work, the Auditor General is unable to provide independent audit assurance, even when Toronto Hydro is fully compliant with all requests.

These restrictions that exist within the legislative framework were recently discussed with the President and CEO of Toronto Hydro. The President understands the legislative challenges facing the Auditor General and concurs that an audit conducted in accordance with government audit standards would be of value. The President invited the Auditor General to conduct an independent audit including to review Toronto Hydro's commitment to "provide a reliable, effective and efficient electricity distribution system" pursuant to section 2.2.2(c) of the Shareholder's Direction approved by City Council.

Prior to commencing an audit, the Auditor General will outline an audit plan to identify the audit scope and areas for review. At a minimum, the audit will confirm Toronto Hydro's compliance with the Shareholder's Direction. Management will have an opportunity to provide feedback on findings prior to the audit report being finalized. The Auditor General will present the final audit report to Toronto Hydro's Board, and then to the City's Audit Committee and City Council.

While the Auditor General acknowledges the Board of Directors is responsible for oversight of the corporation, for the Auditor General to proceed, she will require a request from Council to the Chair of Toronto Hydro Corporation, pursuant to subsection 3.15(c)(2)(c) of the *Municipal Code*. The Auditor General will make this request in 2017 to enable her to add an audit of Toronto Hydro to her 2018 work plan. The Auditor General is unable to conduct the audit before that time due to resource constraints.

## **Financial Impact**

There is no financial impact resulting from receipt of this report.

## **BACKGROUND**

The principal business of Toronto Hydro is the distribution of electricity by its wholly-owned subsidiary Toronto Hydro-Electric System Limited. The City of Toronto is the sole shareholder of Toronto Hydro and the relationship with Toronto Hydro is governed by a Shareholder Direction. Toronto Hydro declared and paid dividends to the City totaling \$43.0 million in 2013, \$60.6 million in 2014 and \$37.5 million in 2015.

## **CONTACT**

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## **SIGNATURE**

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