

Clause embodied in Report No. 15 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its regular meeting held on November 26, 27 and 28, 2002.

## 1

## Implementation of Auditor General and Internal Audit Functions

*(City Council at its regular meeting held on November 26, 27 and 28, 2002, amended this Clause:*

*(1) in accordance with the following Motion:*

**Moved by:** **Councillor Balkissoon**

**Seconded by:** **Councillor Jones**

***“WHEREAS*** *City Council at its meeting held on May 21, 22 and 23, 2002, adopted, as amended, Policy and Finance Committee Report No. 7, Clause No. 1, headed ‘Proposal to Establish an Independent Auditor General for the City of Toronto’, and, in so doing, approved a term of office of five years for the Auditor General; and*

***WHEREAS*** *that decision was based upon the maximum allowable term of office under the Municipal Act; and*

***WHEREAS*** *it has been determined that the City may appoint the Auditor General as a non-statutory official, without any restriction or maximum term; and*

***WHEREAS*** *it would be preferable to establish a longer term of office to ensure that, in the future, the City is able to attract and retain a qualified candidate for the position; and*

***WHEREAS*** *the original recommendation of Mr. Denis Desautels was to set a term of seven years;*

***NOW THEREFORE BE IT RESOLVED THAT***, *in accordance with §27-49 of Chapter 27 of the City of Toronto Municipal Code, Policy and Finance Committee Report No. 7, Clause No. 1, headed ‘Proposal to Establish an Independent Auditor General for the City of Toronto’, be re-opened for further consideration, only insofar as it pertains to the number of years of the term of office of the Auditor General;*

***AND BE IT FURTHER RESOLVED THAT*** the term of office for the Auditor General be changed to seven years; and that clause 169-30.2.B of the Draft By-law contained in Appendix 1 of the report dated November 4, 2002, from the Chief Administrative Officer, as embodied in Policy and Finance Committee Report No. 15, Clause No. 1, headed 'Implementation of Auditor General and Internal Audit Functions', be amended by deleting the number '5' and inserting in lieu thereof the number '7', so the clause shall now read:

*'B. Be appointed for a non-renewable term of 7 years.'*"; and

(2) by adding thereto the following:

*"It is further recommended that the Chief Administrative Officer be requested to submit a report to the Policy and Finance Committee on establishing a political accountability mechanism to review and evaluate organizational and management structures and practices, in order to employ a pro-active approach to economies, efficiencies and accountability in City operations."*)

**The Policy and Finance Committee recommends the adoption of the Recommendations of the Audit Committee embodied in the communication (November 8, 2002) from the City Clerk subject to deleting Recommendation No. (2) and renumbering the remaining Recommendations to read as follows:**

**"It is recommended that:**

- (1) to give effect to Council's decision to establish an Auditor General and to transfer Internal Audit functions from the Auditor General to the Chief Administrative Officer, as recommended in the report of Mr. Denis Desautels, the 2003 budget submission for the Chief Administrative Officer be increased by \$700,000 to be funded as follows: \$50,000 transferred from the Auditor General's Office and \$650,000 to be funded as a new program;**
- (2) the Chief Administrative Officer report to the Policy and Finance Committee in eighteen months on the status of implementation including any additional actions necessary to support the ongoing effectiveness of the internal audit function;**
- (3) the draft by-law attached as Appendix 1 of the report (November 4, 2002) from the Chief Administrative Officer be approved, setting out provisions for the Auditor General's responsibilities, term of office, selection, compensation, annual audit plan, and other matters as required to implement the Auditor General function; and the City Solicitor be authorized to introduce the necessary bill in Council to give effect thereto;**
- (4) in accordance with Section 27-137, notice of Council's intention to amend Chapter 27, Council Procedures, of the City of Toronto Municipal Code, regarding the duties of the Audit Committee, as set out in Appendix 2 of the**

**report (November 4, 2002) from the Chief Administrative Officer, be given; and that authority be granted for the introduction of the necessary bill in Council to give effect thereto;**

- (5) the Audit Framework Policy, attached as Appendix 3 of the report (November 4, 2002) from the Chief Administrative Officer, be approved, setting out detailed protocols for the Auditor General;**
- (6) the Minister of Municipal Affairs be requested to make the necessary legislative amendments to allow the City to delegate to the Auditor General the statutory powers currently in place for external attest auditors; and the Chief Administrative Officer report to the Audit Committee in six months on the status of this request;**
- (7) Council's Policy on the Selection and Hiring of Consulting Services be amended to:**
  - (a) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$250,000, where approved procurement procedures have been followed;**
  - (b) transfer from the Chief Administrative Officer to the Audit Committee the authority for approving Auditor General consulting related expenditures between \$250,000 and \$500,000; and**
  - (c) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$50,000 in expenditures where normal purchasing procedures are not possible; and that this change be referred to the current review of the Municipal Code, Chapter 195 (Purchasing By-law) for any required amendments resulting therefrom;**
- (8) upon completion of the independent external review and job evaluation of the new position of Auditor General, the current contract of Mr. Jeffrey Griffiths be amended to reflect any changes, and that Clause No. 169-30.3.C of the draft by-law contained in Appendix 1 of the report (November 4, 2002) from the Chief Administrative Officer be deleted;**
- (9) the Implementation Team be disbanded and the members be thanked for their efforts in this regard; and**
- (10) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto and that leave be granted for the introduction of any necessary bills in Council to give effect thereto."**

The Policy and Finance Committee reports, for the information of Council, having:

- (i) referred the following Recommendation No. (2) of the Audit Committee, embodied in the communication (November 8, 2002) from the City Clerk, to the Budget Advisory Committee for report thereon to the Policy and Finance Committee, through the Budget process:  
  
“(2) pre-approval of \$650,000.00 (or a portion thereof) be granted from the 2003 budget request in order that implementation of the internal audit function may commence as soon as possible;” and
- (ii) referred the report (October 31, 2002) from the Chairman, Toronto Police Services Board, entitled “Impact of the Position of the City of Toronto – Auditor General upon the Toronto Police Service with regard to Audit Services” to the City Auditor for report thereon to the Budget Advisory Committee, through the budget process.

**The Policy and Finance Committee submits the following communication (November 8, 2002) from the City Clerk:**

The Audit Committee recommends that:

- (1) to give effect to Council’s decision to establish an Auditor General and to transfer Internal Audit functions from the Auditor General to the Chief Administrative Officer, as recommended in the report of Mr. Denis Desautels, the 2003 budget submission for the Chief Administrative Officer be increased by \$700,000 to be funded as follows: \$50,000 transferred from the Auditor General’s Office and \$650,000 to be funded as a new program;
- (2) pre-approval of \$650,000 (or a portion thereof) be granted from the 2003 budget request in order that implementation of the internal audit function may commence as soon as possible;
- (3) the Chief Administrative Officer report to the Policy and Finance Committee in eighteen months on the status of implementation including any additional actions necessary to support the ongoing effectiveness of the internal audit function;
- (4) the draft by-law attached as Appendix 1 of the report (November 4, 2002) from the Chief Administrative Officer be approved, setting out provisions for the Auditor General’s responsibilities, term of office, selection, compensation, annual audit plan, and other matters as required to implement the Auditor General function; and the City Solicitor be authorized to introduce the necessary bill in Council to give effect thereto;
- (5) in accordance with Section 27-137, notice of Council’s intention to amend Chapter 27, Council Procedures, of the City of Toronto Municipal Code, regarding the duties of the Audit Committee, as set out in Appendix 2 of the report (November 4, 2002) from the Chief Administrative Officer, be given; and that authority be granted for the introduction of the necessary bill in Council to give effect thereto;

- (6) the Audit Framework Policy, attached as Appendix 3 of the report (November 4, 2002) from the Chief Administrative Officer, be approved, setting out detailed protocols for the Auditor General;
- (7) the Minister of Municipal Affairs be requested to make the necessary legislative amendments to allow the City to delegate to the Auditor General the statutory powers currently in place for external attest auditors; and the Chief Administrative Officer report to the Audit Committee in six months on the status of this request;
- (8) Council's Policy on the Selection and Hiring of Consulting Services be amended to:
  - (a) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$250,000, where approved procurement procedures have been followed;
  - (b) transfer from the Chief Administrative Officer to the Audit Committee the authority for approving Auditor General consulting related expenditures between \$250,000 and \$500,000; and
  - (c) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$50,000 in expenditures where normal purchasing procedures are not possible; and that this change be referred to the current review of the Municipal Code, Chapter 195 (Purchasing By-law) for any required amendments resulting therefrom;
- (9) upon completion of the independent external review and job evaluation of the new position of Auditor General, the current contract of Mr. Jeffrey Griffiths be amended to reflect any changes, and that Clause No. 160-30.3.C of the draft by-law contained in Appendix 1 of the report (November 4, 2002) from the Chief Administrative Officer be deleted;
- (10) the Implementation Team be disbanded and the members be thanked for their efforts in this regard;
- (11) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

The Audit Committee reports, for the information of the Policy and Finance Committee, having requested its Chair to submit the following Notice of Motion to City Council, at its meeting to be held on November 26, 2002, in conjunction with Council's consideration of this matter:

"Whereas on May 21, 22 and 23, 2002, City Council approved a term of office of five years for the Auditor General; and

Whereas that decision was based upon the maximum allowable term of office under the Municipal Act; and

Whereas it has been determined that the City may appoint the Auditor General as a non-statutory official without any restriction or maximum term; and

Whereas it would be preferable to establish a longer term of office to ensure that in the future the City is able to attract and retain a qualified candidate to the position; and

Whereas the original recommendation of Mr. Denis Desautels was to set a term of 7 years;

Therefore be it resolved that Clause No. (1) of Report No. 7 of the Policy and Finance Committee dated May 21, 22 and 23, 2002 be reopened only as it pertains to the number of years of the term of the Auditor General; and

Be it further resolved that Clause 169-30.2.B of the draft by-law contained in Appendix 1 of the report (November 4, 2002) from the Chief Administrative Officer be amended by deleting the number '5' and inserting in lieu thereof the number '7', so the clause shall now read:

'B. Be appointed for a non-renewable term of 7 years.' "

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Background:

The Audit Committee, on November 8, 2002, had before it a report (November 4, 2002) from the Chief Administrative Officer respecting Implementation of Auditor General and Internal Audit Functions, and recommending that:

- “(1) to give effect to Council’s decision to establish an Auditor General and to transfer Internal Audit functions from the Auditor General to the Chief Administrative Officer, as recommended in the report of Mr. Denis Desautels, the 2003 budget submission for the Chief Administrative Officer be increased by \$700,000 to be funded as follows: \$50,000 transferred from the Auditor General’s Office and \$650,000 to be funded as a new program;
- (2) the Chief Administrative Officer report to the Policy and Finance Committee in eighteen months on the status of implementation including any additional actions necessary to support the ongoing effectiveness of the internal audit function;
- (3) the draft by-law attached as Appendix 1 be approved, setting out provisions for the Auditor General’s responsibilities, term of office, selection, compensation, annual audit plan, and other matters as required to implement the Auditor General function., and the City Solicitor be authorized to introduce the necessary bill in Council to give effect thereto;

- (4) in accordance with Section 27-137, notice of Council's intention to amend Chapter 27, Council Procedures, of the City of Toronto Municipal Code, regarding the duties of the Audit Committee as set out in Appendix 2, be given; and that authority be granted for the introduction of the necessary bill in Council to give effect thereto;
- (5) the Audit Framework Policy attached as Appendix 3 be approved, setting out detailed protocols for the Auditor General;
- (6) the Minister of Municipal Affairs be requested to make the necessary legislative amendments to allow the City to delegate to the Auditor General the statutory powers currently in place for external attest auditors;
- (7) Council's Policy on the Selection and Hiring of Consulting Services be amended to:
  - (a) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$250,000, where approved procurement procedures have been followed;
  - (b) transfer from the Chief Administrative Officer to the Audit Committee the authority for approving Auditor General consulting related expenditures between \$250,000 and \$500,000; and
  - (c) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$50,000 in expenditures where normal purchasing procedures are not possible; and that this change be referred to the current review of the Municipal Code, Chapter 195 (Purchasing By-law) for any required amendments resulting therefrom;
- (8) this report be forwarded to the Policy and Finance Committee for consideration at its meeting of November 14, 2002;
- (9) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto and that leave be granted for the introduction of any necessary bills in Council to give effect thereto."

The Audit Committee also had before it Clause No. 6 of Audit Committee Report No. 6, titled, "Protocol – Monitoring the Implementation of the City Auditor's Recommendations", which was adopted, without amendment, by City Council at its meeting held on June 18, 19 and 20, 2002

Mr. John Elvidge and Ms. Lynda Taschereau, Office of the Chief Administrative Officer, made a presentation to the Audit Committee.

The Audit Committee's recommendations are noted above.

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(Report dated November 4, 2002, addressed to the  
Audit Committee from the Chief Administrative Officer)

Purpose:

To give effect to decisions made by City Council on May 21, 22, 23, 2002, with respect to the implementation of Auditor General and Internal Audit functions.

Financial Implications and Impact Statement :

The funding recommendations in this report are required to give effect to Council's decision to establish an Auditor General and to transfer internal audit functions from the Auditor General to the Chief Administrative Officer. If approved, there will be a 2003 operating budget submission increase in the office of the Chief Administrative Officer of \$700,000.00 to be funded through \$650,000.00 in new program funding, and the transfer of \$50,000.00 from the Auditor General.

In 2000, \$321,200.00 was transferred to the City Auditor to provide internal audit services to the Toronto Police Services Board and to Toronto Police Services. As a result of the implementation of an independent Auditor General, this service can no longer be provided to the Toronto Police Services. Toronto Police Services has identified an operating budget requirement of \$360,500.00 to re-establish their internal audit function. The Auditor General will be reporting on the financial implications of this issue through the 2003 operating budget process.

At its meeting on October 29, 30, 31, 2002, Council requested the Auditor General to undertake an updated audit of policies, processes, programs and practices, similar to the 1992 Metro Toronto auditor's report on race relation practices within the Toronto Police Services. The Auditor General will be reporting on the financial implications of this issue through the 2003 operating budget process.

The Chief Financial Officer has reviewed this report and agrees with its recommendations.

Recommendations :

It is recommended that:

- (1) to give effect to Council's decision to establish an Auditor General and to transfer Internal Audit functions from the Auditor General to the Chief Administrative Officer, as recommended in the report of Mr. Denis Desautels, the 2003 budget submission for the Chief Administrative Officer be increased by \$700,000.00 to be funded as follows: \$50,000.00 transferred from the Auditor General's Office and \$650,000.00 to be funded as a new program;
- (2) the Chief Administrative Officer report to the Policy and Finance Committee in eighteen months on the status of implementation including any additional actions necessary to support the ongoing effectiveness of the internal audit function;



- (3) the draft by-law attached as Appendix 1 be approved, setting out provisions for the Auditor General's responsibilities, term of office, selection, compensation, annual audit plan, and other matters as required to implement the Auditor General function., and the City Solicitor be authorized to introduce the necessary bill in Council to give effect thereto;
- (4) in accordance with Section 27-137, notice of Council's intention to amend Chapter 27, Council Procedures, of the City of Toronto Municipal Code, regarding the duties of the Audit Committee as set out in Appendix 2, be given; and that authority be granted for the introduction of the necessary bill in Council to give effect thereto;
- (5) the Audit Framework Policy attached as Appendix 3 be approved, setting out detailed protocols for the Auditor General;
- (6) the Minister of Municipal Affairs be requested to make the necessary legislative amendments to allow the City to delegate to the Auditor General the statutory powers currently in place for external attest auditors;
- (7) Council's Policy on the Selection and Hiring of Consulting Services be amended to:
  - (a) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$250,000.00, where approved procurement procedures have been followed;
  - (b) transfer from the Chief Administrative Officer to the Audit Committee the authority for approving Auditor General consulting related expenditures between \$250,000.00 and \$500,000.00; and
  - (c) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$50,000.00 in expenditures where normal purchasing procedures are not possible; and that this change be referred to the current review of the Municipal Code, Chapter 195 (Purchasing By-law) for any required amendments resulting therefrom;
- (8) this report be forwarded to the Policy and Finance Committee for consideration at its meeting of November 14, 2002;
- (9) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

Background:

At its meeting of May 21-23, 2002, City Council approved Clause No. 1 of Report No. 7 of the Policy and Finance Committee establishing the Office of the Auditor General and transferring the internal audit function of the City Auditor to the Chief Administrative Officer, as recommended in the report of Mr. Denis Desautels. Council also appointed Mr. Jeffrey Griffiths

as Auditor General for the term of his current contract or any renewal thereof. The report also recommended that the Chief Administrative Officer, working with the City Auditor, in consultation with the City Solicitor and the Commissioner of Corporate Services, report back on specific implementation actions. This implementation team was augmented to include Councillors Sandra Bussin, Denzil Minnan-Wong, and Gloria Lindsay Luby and was requested to work closely with the Audit Committee in developing the implementation strategy.

Comments:

(1) The City's New Audit Framework:

The City's new audit framework will consist of three separate functions: Auditor General, external attest audit, and internal audit. Management throughout the organization will continue to play an important role by establishing and monitoring the system of internal controls.

The Auditor General and internal audit functions work within generally accepted auditing standards such as those of the Institute of Internal Auditors, which include independence, objectivity, professional proficiency, scope and performance of work. Audit staff are also bound by the standards and ethics of their own separate professional organizations, which include the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association, the Society of Management Accountants, the Information Systems Audit and Control Association, the Institute of Certified Fraud Examiners and the Institute of Environmental Audits. External attest auditors work within the standards of the Canadian Institute of Chartered Accountants.

(a) Role of the Auditor General:

The Auditor General is appointed by City Council and is independent of the administration. The Auditor General's work will focus on strengthening Council's oversight role and continuing to improve accountability by taking a broad perspective and a risk-based approach, ensuring coverage of all areas of significant risk for the City. The Auditor General will be governed by a by-law (Appendix 1), and an Audit Policy Framework (Appendix 3) setting out reporting protocols to ensure independence and working protocols to guide interaction between the Auditor General, the internal audit function, and the organizations that are the subject of Auditor General work. The Auditor General's responsibilities do not extend to evaluation of Council's policy decisions.

(b) Role of External Attest Audit:

The new Municipal Act requires that the City's financial statement/attest audit function for its departments, agencies, boards and commissions be carried out by an external auditor (not an employee of the City). The Auditor General will oversee the work of the external auditor and will manage the process for awarding the contract. The Audit Committee will consider the reports of the external auditor and forward them to Council. Council has approved the transfer of the budget for external attest audit from the Finance Department to the Auditor General's Office.

(c) Role of Internal Audit:

The establishment of an independent Auditor General (without responsibility for assurance services to management) necessitates the creation of an Internal Audit Division providing risk and business consulting services to senior management and providing independent and objective assurance that the systems for which management is responsible function properly. As approved by Council, the new Internal Audit Division will report to the Chief Administrative Officer, providing service to departments and undertaking enterprise-wide projects.

(d) Role of Management:

Management (i.e., the Chief Administrative Officer, Chief Financial Officer and Treasurer, Commissioners and other senior officials) is responsible for establishing, maintaining, and monitoring the internal control infrastructure, both financial and operational. The Chief Administrative Officer, in consultation with the Chief Financial Officer and Departmental Commissioners, is responsible for identifying the administrative areas of greatest risk and for ensuring that adequate controls are in place to safeguard the City's assets, financial and otherwise. This risk assessment is part of the Chief Administrative Officer's annual performance contract with Commissioners.

The Chief Financial Officer is responsible for designing, implementing and supporting systems of effective internal controls regarding policies and procedures for financial transactions. The Chief Financial Officer is also responsible for providing accurate, effective and timely management reports to departments.

The audit role in the internal control system is to independently evaluate its adequacy.

(2) Auditing Definitions:

The following definitions will assist the reader in understanding the audit framework proposed herein.

(a) Comprehensive Auditing:

Comprehensive Auditing has three components: auditing of financial statements (also known as attest auditing), performance or value-for-money auditing, and auditing for compliance with legislative and other authorities. These three components are defined as follows:

(I) Attest Audit:

The city is required by statute to prepare financial statements each fiscal year. The financial statements are prepared by management and the responsibility for their integrity lies with management.

These statements are required to conform with generally accepted accounting principles for municipalities. The opinion of an external auditor states whether the financial statements fairly present the operations and financial positions of the municipality and whether they are in compliance with appropriate accounting practices.

(II) Performance or Value-for-money Audit:

Performance or Value-for-money audits are carried out within established criteria (or standards) for evaluating performance. Auditors report on the adequacy of the actual performance measured against those criteria. Value-for-money audits can include any or all of the following:

- (i) the adequacy of management systems and controls and practices including those intended to control and safeguard assets, to ensure monitoring and evaluation of results;
- (ii) the extent to which resources have been managed with due regard to economy and efficiency; and
- (iii) the extent to which programs, operations or activities are effective at achieving stated objectives.

(III) Compliance Audit:

Compliance audits ensure that operations and financial transactions are conducted within the corporation's governing policies, procedures, by-laws and other legislation.

(3) Implementing the New Audit Framework:

(a) Review Process:

This report is the result of a joint review with the Auditor General to determine the necessary measures to implement Council's decision to establish separate Auditor General and internal audit functions. A jurisdictional review and research of materials was undertaken as part of the analysis. Review of the Province of Ontario and Federal Auditor General models provided valuable guidance, particularly on the issue of ensuring independence in the Auditor General function, and in determining the level of resources required to implement the City's new framework. The following organizations were contacted:

- (i) Federal Government, Office of the Auditor General: research and review of materials;
- (ii) Federal Government, Treasury Board Secretariat, Centre for Excellence in Internal Audit, interview with Senior Analyst and Audit Consultant;

- (iii) Province of Ontario, Office of the Provincial Auditor: research and review of materials, interview with Provincial Auditor and Deputy Provincial Auditor;
  - (iv) Province of Ontario, Internal Audit Division, Management Board Secretariat: research and review of materials, interview with Audit Director, Finance cluster;
  - (v) Province of British Columbia, Auditor General: research and review of materials, telephone interview;
  - (vi) City of Montreal, Auditor General Office: research and review of materials, telephone interview;
  - (vii) City of San Jose, CA., City Auditor's Office: research and review of materials, telephone interview and
  - (viii) Institute of Internal Auditors, USA: research and review of materials.
- (b) Staffing and Financial Implications:

The report of Mr. Denis Desautels, approved by Council in May, 2002, recommended an overall increase of between \$500,000 and \$800,000 in audit operating costs, necessary to support the new audit framework and anticipated growth in workload. The Auditor General will have new responsibilities for overseeing the external attest audit function, an expanded mandate in the areas of value-for-money, environmental, and sustainability audits, greater scope covering agencies, boards and commissions, and a growth in workload. For example, at its meeting of October 29, 2002, Council requested the Auditor General to undertake an updated audit of policies, procedures, programs and practices similar to the 1992 Metro Toronto Auditor's report on race relations practices within the Toronto Police Services.

While the Auditor General currently conducts a small amount of internal audit work, the Desautels report recognized the need to increase capacity in this area, particularly in providing assurance to senior management on the adequacy of the system of internal controls. The Desautels report recommended a \$900,000 to \$1.1 million budget for the Internal Audit Division, to be partially funded through a transfer from the Auditor General, since internal audit services would no longer be provided from that office. As a result of this review it is recommended that, to give effect to Council's decision to transfer internal audit functions to the Chief Administrative Officer, the 2003 budget submission for the Chief Administrative Officer be increased by \$700,000, to be funded as follows: \$50,000 to be transferred from the Auditor General's Office, and \$650,000 to be funded as a new program.

This amount of funding, while less than that recommended in the Desautels report, will provide for a small Internal Audit Division of six new positions (the Desautels report recommended 8-10 positions). There will be an overall audit resource level of 32 positions: 26 in the Auditor General's Office and 6 in the Internal Audit Division (figures include support staff). This review has confirmed the conclusion of the Desautels report that, even with an increase, the City's audit

resources are low when compared to other jurisdictions, and that it is important to avoid depleting the overall level of audit resources across the various functions. As an example, the City of Montreal, with a budget of \$3.6 billion, has 33 staff supporting audit functions, or approximately one staff per \$100 million of expenditure. Upon implementation of the new audit framework, Toronto will have approximately one audit staff per \$170 million of expenditure.

The new Internal Audit Division will consist of one Director, four audit professionals, and one support staff. Recruitment for these positions will begin immediately upon approval of funds in order to quickly implement the new audit framework.

Since this is a new approach to internal auditing at the City, it is recommended that the Chief Administrative Officer report to the Policy and Finance Committee in eighteen months on the status of the implementation including any additional actions necessary to support the ongoing effectiveness of the internal audit framework.

(4) Auditor General: By-law Provisions and Implementation Measures:

This section builds upon Council's previously approved directions, and recommends by-law provisions and an Audit Framework Policy that will set out detailed protocols to guide the work of the Auditor General. Taken together, the by-law provisions and the detailed protocols support the independence of the Auditor General by ensuring that the Auditor General will not be vulnerable to pressures that may hamper the planning and carrying out of an audit plan based on the overall assessment of risk in the organization, and by providing the Auditor General with some degree of latitude and control over workload. A summary of key recommended independence measures is presented in Table 2 at the end of this section. The by-law in Appendix 1 also includes additional amendments as necessary to update references to the City Auditor in the new Municipal Code. Similar references in old by-laws and former municipal codes will be updated as they are incorporated into the new Municipal Code; in the meantime these references can be interpreted to mean the external auditor.

(A) Mandate, Responsibilities:

- (i) approved by Council: A mandate for the Auditor General comprising compliance, value-for-money, financial (excluding attest) audits of all programs, activities and functions of departments and agencies, boards and commissions and the oversight of the work of external attest auditors; and

(ii) Recommended Implementation:

(a) By-law Provisions:

The draft by-law contained in Appendix 1 provides for the following:

- (1) it establishes the overall mandate for the Auditor General as assisting the whole of City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations; and
- (2) it establishes that the Auditor General shall:
  - (i) have full carriage and control of and be fully responsible for the conduct of the Auditor General's Office; and
  - (ii) be responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities, functions of all City departments, agencies, boards, and commissions, and the offices of the Mayor and members of Council.

(b) Audit Framework Policy:

The following detailed description of the responsibilities of the Auditor General are recommended as part of the proposed "Audit Framework Policy" contained in Appendix 3:

- (1) conduct, or cause to be conducted, audits on behalf of City Council in the areas of compliance, financial (excluding attest), program or value-for-money, information technology infrastructure, environment, and sustainability (Note 1); and other audits as appropriate;
- (2) undertake forensic investigations including suspected fraudulent activities;
- (3) oversee the work of external auditor(s) performing financial statement/attest audits;
- (4) examine problems and carry out special assignments identified by the Auditor General, or approved by 2/3 majority resolution of Council;

- (5) provide assurance that the information technology infrastructure contains adequate controls and security by ensuring the existence of such controls in existing systems, assessing overall computer security including business continuity (emergency) planning;
- (6) coordinate audit activities with internal auditors and any contracted work to ensure efficient and effective use of audit resources;
- (7) manage the fraud hotline; refer issues to departmental management and the Internal Audit Division, as appropriate.

Note 1: Environmental auditing relates to the extent to which the City is achieving its environmental objectives as approved by Council. Council's Environmental Plan, Recommendations 54 and 55 established a process for environmental auditing. Sustainability auditing relates to the City's capacity to achieve sustainability within the principle of integrating social, economic and environmental costs and benefits. Sustainability auditing activities have not yet been fully defined in the City's context, but this is an emerging growth area in the auditing profession. As approved in the Environmental Plan, Recommendation 56, the Auditor General will work with the Sustainability Roundtable to more fully develop the City's sustainability auditing process.

In the past the City Audit Department conducted audit work for both the management of Toronto Police Services and the Toronto Police Services Board. Operating funds of \$321,200 were transferred from Police Services to the City Auditor in 2000 for this purpose. Given the separation of internal audit functions from the Auditor General's mandate, it would no longer be appropriate for the Auditor General to provide advice to the management of the Toronto Police Services. The Auditor General will be reporting on the budget implications of this change through the 2003 budget process.

(B) Terms and Powers:

- (i) approved by Council: A five year term for the Auditor General position, to be implemented following expiry of the current Auditor General's term or any renewal thereof;



(ii) Recommended Implementation:

(a) By-law Provisions:

The draft by-law provides that future Auditors General be appointed by Council for a 5 year, non-renewable term, following the current appointment or any renewal thereof.

Council's decision to approve a five year term was based on appointing the Auditor General under Section 296 of the new Municipal Act which stipulates that an auditor of a municipality shall not be appointed for a term exceeding five years, and that they not be employees of the municipality. However, as a result of further discussions with the Province it has been determined that the City may appoint the Auditor General outside of this legislation. In this case, an appointment could be made for a longer, non-renewable term which has several benefits: (1) it will ensure that the Auditor General has an adequate length of time to implement a thorough and effective auditing plan; (2) it will increase the likelihood of interest from qualified, topnotch candidates for the job; and (3) it will support a cornerstone of independence in Auditor General functions, i.e., that terms of office be non-renewable in order to remove any perception of Auditor General bias in aid of a contract renewal.

However, if appointed outside of the legislation the Auditor General will not have the powers laid out in Section 296 of the new Municipal Act, i.e.:

- (1) rights of access to all records of the municipality or any of its local boards;
- (2) the ability to require from current and former members of council and local boards and from current and former officers of the municipality and its local boards, such information and explanations as in his or her opinion is necessary to carry out the duties of the auditor;
- (3) the ability to require any person to give evidence on oath respecting any of the information and explanations provided by such current or former Councillors and officers and for that purpose will have the powers of a commission under the *Public Inquiries Act*.

Since it is desirable for an independent Auditor General to have these powers, and since the City has established a precedent with the establishment of an independent Auditor General which was not provided for in Provincial legislation, it is recommended that Council request the

Minister of Municipal Affairs to make the necessary legislative amendments to allow the City to delegate to the Auditor General the statutory powers currently given to external attest auditors.

(b) Audit Framework Policy:

The Audit Framework Policy confirms that by virtue of holding the position, the Auditor General will have access to any records necessary to complete audit work. Staff of those organizations within the Auditor General's scope have a duty to co-operate with the Auditor General and to not obstruct audit activities.

(C) Selection:

- (i) Approved by Council: The selection of the Auditor General be accomplished through an impartial search process.
- (ii) Recommended Implementation:

(a) By-law Provisions:

The attached draft by-law (Appendix 1) provides for the Auditor General to be selected through an impartial process managed by a special committee of Council established for this purpose. This will require an amendment to the Municipal Code, Section 169 (1), Chief Administrative Officer, to exclude the Auditor General from those positions over which the Chief Administrative Officer has authority to recommend appointment and dismissal.

(D) Compensation:

- (i) Approved by Council: Upon expiry of the current City Auditor's term of office or any renewal thereof, the Auditor General be compensated within the same range as other senior officials, without performance bonuses and for remuneration to be set through an independent review.
- (ii) Recommended Implementation:

(a) By-law Provisions:

The draft by-law (Appendix 1) provides that, following the current Auditor General's appointment or any renewal thereof, the Auditor General's remuneration be set in accordance with the recommendation of an independent external review and that the Auditor General shall not receive any performance bonus.

(b) Audit Framework Policy:

The Audit Framework Policy includes a provision that the Auditor General be compensated within the same non union salary structure as other senior officials, without performance bonuses. Market adjustments will be applied in accordance with Council approved policy.

(E) Reporting Relationship:

(i) Approved by Council: That the Auditor General report to Council through the Audit Committee.

(ii) Recommendation Implementation:

(a) By-law Provisions:

An amendment to the Municipal Code, Section 27-92, Council Procedures is required to expand the duties of the Audit Committee to accommodate the Auditor General implementation. A draft by-law is attached as Appendix 2 to this report. This by-law is presented separately because the Municipal Code requires that notice be given prior to Council deliberation of procedural changes. The following duties are recommended:

- (1) Recommend to Council the appointment of the City's external auditor.
- (2) Recommend to Council the appointment of external auditors to conduct the annual audit of the expenditures of the Auditor General's Office.
- (3) Consider the annual external audit of the financial statements of the City and its agencies, boards and commissions.
- (4) Consider the external audit of the Auditor General's Office.
- (5) Consider the Auditor General's reports and annual audit plan.
- (6) Conduct an annual review of the Auditor General's accomplishments.
- (7) Make recommendations to Council on reports considered by the Audit Committee.

(F) Reporting Protocols:

(i) Approved by Council: That the Auditor General: be given latitude in accepting special requests by Council, and members of Council; prepare an annual report to Council, follow up on implementation recommendations; report on performance of the Auditor General's office on an annual basis.

(ii) Recommendation Implementation:

(a) By-law Provisions:

Annual Audit Plan:

The draft by-law (Appendix 1) sets out the following provisions related to the annual audit plan to be prepared by the Auditor General:

- (1) The Auditor General shall submit an annual audit plan to Council for information.
- (2) No deletions or amendments to the annual audit plan shall be made except by the Auditor General, however Council may add to the annual audit plan by a two-third's majority vote.

(b) Audit Framework Policy:

Reporting protocols are key mechanisms to support independence and clarity of auditing processes for both the Auditor General and management. The protocols recommended below follow the models in place at the Provincial and Federal levels, adapted for the City's decision making structure.

Annual Audit Plan:

- (1) The Auditor General will be given the opportunity to comment on the impact of in-year additions to the plan made by 2/3 majority vote of Council, and to recommend not proceeding with the additional work, if there is an adverse impact on risk or other audit work, and/or resource availability.

Auditor General Reports:

- (1) The Auditor General will report to Council through the Audit Committee, at a minimum on an annual basis.
- (2) The Auditor General may decide to report more often, or may report on a project-specific basis, depending on the Auditor General's opinion of the risk of waiting.
- (3) Any Auditor General report will include at a minimum: audit objectives, scope, criteria, detailed audit observations and recommendations, detailed management responses to recommendations, overall conclusions.
- (4) Management will be given at least two weeks to provide a response for inclusion in the Auditor General's reports. If

management's response is not received, the Auditor General report may proceed and will include an explanation of the absence of management's response.

- (5) Management responses will include at a minimum: management's concurrence or non-concurrence with the Auditor General's findings, an explanation of any mitigating factors, and a description of any actions taken to date to correct the problems identified by the Auditor General. If possible to provide without causing undue delay to the release of the Auditor General report, management's response will include future actions planned to continue to correct the situation.

#### Follow up on Reports and Recommendations:

- (1) The Auditor General will issue follow up reports to Council through the Audit Committee on the progress of actions as a result of recommendations; such reports to be issued within two years of the initial recommendations and to include management's response.

#### Review of Auditor General's Accomplishments:

- (1) The Audit Committee will conduct an annual review of the Auditor General based upon the submission of the Auditor General's report on accomplishments. This review will provide Council with a summary of the accomplishments of the Auditor General as they relate to the audit plan. The review will not critique or question the Auditor General's findings on any particular matter.

#### (G) Use of Independent Advisory Committees:

- (i) Approved by Council: An independent Auditor General.
- (ii) Recommended Implementation:
  - (a) Audit Framework Policy:

The jurisdictional review indicated that most Auditor General functions at Federal, Provincial and Municipal levels make use of independent advisory committees, or panels of external advisors on a standing or project-specific basis. These advisory bodies would be convened and administered by the Auditor General's Office, not by the City Clerk. This concept is recommended as part of the Audit Framework Policy as a mechanism to provide strategic advice and to monitor developments in the auditing profession.

(H) Disclosure of Interference:

(i) Approved by Council: An independent Auditor General.

(ii) Recommended Implementation:

(a) By-law Provisions:

To further enhance the independence of the office, the draft by-law provides for the Auditor General to disclose to full Council any attempt to interfere with Auditor General work.

(I) Budget Process and Spending Authorities:

(i) Approved by Council: That the Auditor General's budget be approved by Council; the Auditor General be able to spend the authorized amount in the manner he/she deems most appropriate; the Auditor General have the authority to engage contractors within the City's overall rules and framework.

(ii) Recommended Implementation:

(a) Audit Framework Policy:

As approved during the 2002 budget process, the Auditor General budget will not be subject to the Administrative review process. The budget will be submitted to the Audit Committee for review in consultation with the Chief Financial Officer. The budget will then be forwarded to the Budget Advisory Committee for consideration along with the Chief Administrative Officer's comments.

The revised budget process for the Auditor General is in keeping with the principle of establishing independence from the administration. This will require an amendment to the Municipal Code, Chapter 71, Financial Control, to assign Auditor General operating budget spending authority approvals to the Audit Committee rather than to the Chief Administrative Officer.

Additionally, it is recommended that the Policy for the Selection and Hiring of Professional and Consulting Services be amended with respect to the delegation of authority for the engagement of consultants for the Auditor General's Office:

(1) to provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$250,000, where approved procurement procedures have been followed;

- (2) transfer from the Chief Administrative Officer to the Audit Committee the authority for Auditor General consulting related expenditures between \$250,000 and \$500,000; and
- (3) provide the Auditor General with authority for Auditor General consulting related expenditures of up to \$50,000 in cases where normal purchasing procedures are not possible, i.e., sole source, emergencies, time constraints, or where for economic reasons it is not possible to follow accepted procedures.

This change will require amendment to the Municipal Code, Chapter 195, Purchasing. However as the Purchasing by-law is currently under study it is recommended that this issue be referred to that review for any further action.

(J) Staffing Authorities:

- (i) Approved by Council: That the Auditor General have the authority to staff the Auditor General office within the City's overall rules and framework.
- (iii) Recommended Implementation:
  - (a) By-law Provisions:

The attached by-law (Appendix 1) provides the Auditor General with the authority to appoint, promote, demote, suspend, and dismiss staff subject to the provisions of any human resource policies adopted by Council or collective agreements applicable to employees of the City, all employees of the Auditor General's Office. This change will require an amendment to the Municipal Code, Section 169-5, Chief Administrative Officer, to provide an exception to the Chief Administrative Officer's authority to appoint, promote, demote, suspend and dismiss staff of the Auditor General's Office. Upon approval of this change, the section will read:

"The Chief Administrative Officer shall appoint, promote, demote, suspend and dismiss, subject to the provisions of any personnel regulations adopted by Council or collective agreements applicable to employees of the City, all employees of the City except the first level of senior management, and the Auditor General and staff of the Auditor General's Office, and statutory officials."

(K) Audit of the Auditor General's Office:

- (i) Approved by Council: Council approved an independent Auditor General, with responsibility for overseeing the work of the external attest auditor.

- (ii) Recommended Implementation:

- (a) By-law Provisions:

It is appropriate that an annual attest audit be undertaken for the expenditures of the Auditor General's Office. This practice of "auditing the Auditor General" is in place at the Provincial and Federal levels. It would be inappropriate for this attest audit to be undertaken by the City's external attest auditor, since responsibility for overseeing that work has been transferred to the Auditor General, therefore, a separate process must be established.

The draft by-law (Appendix 1) makes provision for City Council to appoint an external auditor who shall not be the external auditor appointed to audit the financial statements of the City, its agencies, boards and commissions.

- (b) Audit Framework Policy:

Funding and administration of this annual expenditure audit will be the responsibility of the Chief Administrative Officer who will recommend an external auditor to the Audit Committee for recommendation to Council.

(L) Two-thirds Majority to Change the Municipal Code, Chapter relating to the Auditor General:

- (i) Approved by Council: Any future changes or amendments to the Auditor General by-law require a two-thirds majority vote to be enacted by Council.

- (ii) Recommended Implementation:

- (a) By-law Provision:

The attached draft by-law (Appendix 1) provides for the requirement of a two-thirds majority vote to amend or repeal the Municipal Code Chapter relating to the Auditor General.



Table 2: Summary of Key Measures Recommended to Provide Independence

Framework Element	Contribution to Independence
Submission of an annual audit plan to Council for information; no deletions to the plan / additions to be made by 2/3 majority vote of Council.	Establishes the Auditor General's ability to prepare an audit plan based on the Auditor General's assessment of risk in the organization.
Non-renewable term of office.	Removes any perception of Auditor General bias in aid of a contract renewal.
Compensation set through an independent external review with no performance bonus.	Removes the possibility of influencing the Auditor General's work through compensation.
Provide spending authorities and approvals for some Auditor General expenditures to the Audit Committee.	Creates independence from the administration by removing the Chief Administrative Officer's current authorities related to some expenditures of the Auditor General.
Provide staffing authorities for the Auditor General's Office to the Auditor General, within City rules.	Creates independence from the administration by removing the Chief Administrative Officer's current staffing authorities related to the Auditor General and the Auditor General's staff.
Annual attest audit of the Auditor General's Office.	Establishes a process for "auditing the Auditor General" by an external auditor who is not also the City's attest auditor whose work is overseen by the Auditor General.
2/3 majority vote required to amend or repeal the Auditor General by-law.	Establishes the principle of requiring a majority vote to change the role and responsibilities of the Auditor General.

(5) Working Protocols :

(a) Recommended Implementation:

(i) Audit Framework Policy:

An important component of the auditing process will be the establishment of protocols for working with the organizations which are the subject of Auditor General audits (the "auditee"). The attached Audit Framework Policy recommends that the working protocols include at a minimum the following steps:

- (1) Notification to auditee of intention to audit, including the particular program or issue to be audited;
- (2) First meeting with auditee to establish criteria and objectives for the audit.

- (3) Audit data collection and analysis.
- (4) Draft report submitted to auditee.
- (5) Management response received.
- (6) Further analysis as required.
- (7) Final report, incorporating any management response, sent to auditee upon submission of any Auditor General report.

(6) Internal Audit Implementation:

This section provides details of the recommended mandate, responsibilities and scope of the Internal Audit group reporting to the Chief Administrative Officer.

(a) Mandate:

The Internal Audit group is a resource to senior management providing impartial and objective assurance and consulting activities designed to add value and improve operations.

(b) Responsibilities:

- (i) Determine the extent of and promote compliance with policies, procedures and legislation; follow up on actions and remedies taken to correct non-compliance.
- (ii) Recommend policies and procedures related to internal control systems, standards and guidelines and advise program managers on the development and implementation of internal control systems.
- (iii) Act as a control advisor on system enhancements and implementation.
- (iv) Carry out special assignments for senior management ranging from consulting work to fraud investigation.
- (v) Be involved in the design and implementation of new information systems and enhancements to existing systems to ensure effective internal controls.
- (vi) Provide advice to senior management on operational matters and assurance to senior management that program areas are in compliance with corporate policies and by-laws.
- (vii) Be involved in committees or work teams providing advice on internal controls.

(c) Scope:

The Internal Audit scope will include all departments reporting to the Chief Administrative Officer. Requests for services made by management of agencies, boards and commissions will be considered by the Chief Administrative Officer and the Executive Management Team with input from Internal Audit as to appropriateness and availability of resources.

(d) Reporting Protocols:

- (i) Internal Audit will share work and outcomes with the Auditor General.
- (ii) Internal Audit will act on fraud hotline issues referred from the Auditor General, including reporting to the Auditor General any actions and remedies taken to correct these issues.

Conclusions:

This report recommends measures to implement Council's direction to separate the Auditor General and internal audit functions. These measures are provided for in the attached draft by-laws covering the Auditor General and the duties of the Audit Committee and in the attached Audit Framework Policy which outlines more detailed protocols to guide the work of the Auditor General.

The Auditor General and the City Solicitor were consulted in the preparation of this report.

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Appendix 1

Draft By-law regarding the Auditor General

Authority: Report No. of the Policy and Finance Committee, Clause No. and Report No. Clause No. of the Audit Committee as adopted by City of Toronto Council on November 2002.

Enacted by Council:

CITY OF TORONTO

Bill No.

BY-LAW No.

To amend Article VI, City Auditor, Chapter 169, Officials, City, of the City of Toronto Municipal Code to establish the position of an independent Auditor General, to delineate certain duties and responsibilities of the Auditor General and to make consequential

amendments to Article I, Chief Administrative Officer, Chapter 169 Officials, City; Chapter 19, Business Improvement Areas; Chapter 71, Financial Control; Article II, Heritage Toronto, Chapter 103, Heritage; Chapter 179, Parking Authority; Article III, Acquisition of Non-Governmental Records, Chapter 219, Records, Corporate, and Article II, Yonge-Dundas Square Board of Management, Chapter 636, Public Squares, of the Municipal Code.

Whereas City Council wishes to establish the position of Auditor General and to delineate certain duties and responsibilities of the Auditor General ;

The Council of the City of Toronto HEREBY ENACTS as follows:

1. The City of Toronto Municipal Code is amended as follows:
  - A. By repealing Article VI, City Auditor, of Chapter 169, Officials, City.
  - B. By adding the following as a new Article VI, Auditor General, of Chapter 169, Officials, City.

§169-29. Independence.

The Auditor General is appointed by City Council and is independent of the City administration. The Auditor General is responsible for assisting City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations.

§169-30. Responsibility.

The Auditor General shall:

- A. Have full carriage and control of and be fully responsible for the conduct of the Auditor General's office.
- B. Be responsible for carrying out financial (excluding attest), compliance and performance audits of all programmes, activities and functions of all City departments, agencies, boards, and commissions, and the offices of the Mayor and members of Council.

§169-30.1 Annual Audit Plan.

- A. The Auditor General shall submit an annual audit plan to Council.
- B. No deletions or amendments to the annual audit plan shall be made except by the Auditor General

C. Exception.

Despite §160-30.1B, Council may add to the annual audit plan by a two-third's majority vote.

§169-30.2. Appointment; term.

The Auditor General shall:

- A. Be appointed by Council in accordance with the recommendation of a special committee of Council.
- B. Be appointed for a non-renewable term of 5 years.
- C. Exception.

Despite §169-30.2B the current Auditor General shall hold office until the expiry of the current term and any renewals of that term.

§169-30.3 Compensation.

The Auditor General shall:

- A. Be compensated in accordance with the recommendations of an independent external review.
- B. Shall not receive any performance bonus.
- C. Despite §169-30.3A and §169.30.3B the current Auditor General shall be compensated in accordance with the existing contract terms.

§169-30.4 Additional powers duties and responsibilities.

The Auditor General shall:

- A. Have authority to appoint, promote, demote, suspend and dismiss, subject to the provisions of any human resource policies adopted by Council or collective agreements applicable to employees of the City, all employees of the office of the Auditor General.
- B. Disclose to Council any attempts at interference with the work of the Auditor General's office.

§169-30.5 Annual External audit.

- A. There shall be an annual external audit of the Auditor General's office.

- B. The annual external audit of the Auditor General's office shall not be carried out by the external auditors appointed to audit the financial statements of the City and its Agencies, Boards and Commissions.

§169-31. Conflicting provisions.

Where this article conflicts with the provisions of any other by-law setting out the powers and duties of a municipal official, this article prevails to the extent of the conflict.

§169-32 Two-thirds majority vote required.

This chapter shall not be amended or repealed except by a two-thirds majority of Council.

2. Article I, Chief Administrative Officer, Chapter 169, Officials, City, is amended as follows:

- A. §169-5 is amended by adding a comma after "management" and before "and".
- B. Adding "the Auditor General and staff of the Auditor General's office" after the comma added by § 169-5A and before "and".

- C. §169-6 is amended by adding the following:

§169-6.1 Exception.

Despite §169-6 the Chief Administrative Officer shall not recommend the appointment and dismissal of the Auditor General.

3. Chapter 19, Business Improvement Areas is amended as follows:

§19-12C is amended by deleting "The City Auditor or his or her designate" and substituting "the City's external auditor".

4. Chapter 71, Financial Control is amended as follows:

- A. Article I, Definitions; Authority; Purpose; applicability is amended by deleting "City Auditor and substituting "Auditor General" in the definition of department head.
- B. Article II, Budgets, is amended by adding the following:
- F. Despite §71-8D, the transfer of approved budgets of not more than \$500,000.00 in respect of each reallocation between programs or services or between programs and services within the office of the Auditor General which do not affect the net operating budget for the office of the Auditor General shall require the approval of the Audit Committee, the Treasurer and Council.

- G. Despite §71-8E the transfer of approved budgets between programs or services or between programs and services affecting the net operating budget of the office of the Auditor General shall require the approval of the Audit Committee, the Treasurer and Council.
5. Article II, Heritage Toronto, Chapter 103, Heritage is amended as follows:
- §103-13C is amended by deleting “City Auditor” and substituting “the City’s external auditor”.
6. Chapter 179, Parking Authority, is amended as follows:
- §179-16 is amended by deleting “Municipal Auditor” and substituting “the City’s external auditor”.
7. Article III, Acquisition of Non-Governmental Records, Chapter 219, Records, Corporate is amended as follows:
- §219-6 is amended by deleting “City” before “Auditor” and substituting “external” in the definition of non-governmental record.
8. Article II, Yonge-Dundas Square Board of Management, Chapter 636, Public Squares is amended as follows:
- §636-9D is amended by deleting “City Auditor” and substituting “City’s external auditor”.

ENACTED AND PASSED this 2002.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Clerk

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Appendix 2  
Draft By-law

To amend the Municipal Code, Chapter 27 regarding the duties of the Audit Committee

Authority: Report No. , Clause No. , of the Audit Committee and Report No. , Clause No. of the Policy and Finance Committee as adopted by City of Toronto Council on December 2002.

Enacted by Council:

CITY OF TORONTO

Bill No.

BY-LAW No.

To amend Article XV, Audit Committee, Chapter 27, Council Procedures of the City of Toronto  
Municipal Code to accommodate a new Audit Framework.

Whereas City Council wishes to establish a new audit framework; and

Whereas changes in the role of the audit committee are necessary in order to accommodate the  
new audit framework.

The Council of the City of Toronto HEREBY ENACTS as follows:

1. Article XV, Audit Committee, Chapter 27, Council Procedures is amended by deleting  
§27-92 and replacing it with the following:

§27-92. Audit Committee

The Audit Committee shall be responsible for:

- A. Recommending the appointment of the City's external auditor.
- B. Recommending the appointment of an external auditor to conduct the annual  
expenditure audit of the Auditor General's office.
- C. Considering the annual external audit of the financial statements of the City and  
its Agencies, Boards and Commissions.
- D. Considering the external audit of the expenditures of the Auditor General's office.
- E. Considering the Auditor General's reports and audit plan.
- F. Conducting an annual review of the accomplishments of the Auditor General.
- G. Making recommendations to Council on reports considered by the audit  
committee

ENACTED AND PASSED this    day of November, A.D. 2002.

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Mayor

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City Clerk



### Appendix 3 Audit Framework Policy

(1) Note to Reader:

This policy should be read in context with the following components of the City of Toronto's overall audit framework:

- (a) Municipal Code, Chapter 169, Article VI: Auditor General
- (b) Municipal Code, Chapter 27, Article XV: Audit Committee
- (c) Protocol – Monitoring the Implementation of City Auditor's Recommendations (Clause No.6 of Report No. 6 of the Audit Committee, adopted by City Council on June 18, 2002)
- (d) Process for Considering the Audit budget (Clause No. 1 of Report No. 4 of the Policy and Finance Committee, adopted by City Council on March 4, 2002)

(2) Duties of the Auditor General:

In addition to the general responsibilities set out in Chapter 169 of the Municipal Code, the duties of the Auditor General shall be:

- (a) To conduct, or cause to be conducted, audits on behalf of City Council in the areas of compliance, financial (excluding attest), program or value-for-money, information technology infrastructure, environment, and sustainability; and other audits as appropriate;
- (b) To undertake forensic investigations including suspected fraudulent activities;
- (c) To oversee the work of external auditor(s) performing financial statement/attest audits;
- (d) To examine problems and carry out special assignments identified by the Auditor General, or approved by 2/3 majority resolution of Council;
- (e) To provide assurance that the information technology infrastructure contains adequate controls and security by ensuring the existence of such controls in existing systems, assessing overall computer security including business continuity (emergency) planning;
- (f) To coordinate audit activities with internal auditors and any contracted work to ensure efficient and effective use of audit resources;
- (g) To manage the fraud hotline; refer issues to departmental management and the Internal Audit Division as appropriate.

(3) Additional Powers:

- (a) The Auditor General shall have access to any records necessary to complete audit work.
- (b) Staff of those organizations within the Auditor General's scope have a duty to co-operate with the Auditor General and to not obstruct audit activities.

(4) Compensation:

- (a) The Auditor General will be compensated within the same non union salary structure as other senior officials, without performance bonuses. Market adjustments will be applied in accordance with Council approved policy.

(5) Reporting Protocols:

In addition to the provisions of Chapter 169 of the Municipal Code, the following reporting protocols shall be observed:

(a) Auditor General Reports

- (i) The Auditor General will report to Council through the Audit Committee, at a minimum on an annual basis.
- (ii) The Auditor General may decide to report more often, or may report on a project-specific basis, depending on the Auditor General's opinion of the risk of waiting.
- (iii) Any Auditor General report will include at a minimum: audit objectives, scope, criteria, detailed audit observations and recommendations, detailed management responses to recommendations, overall conclusions.
- (iv) Management will be given at least two weeks to provide a response for inclusion in the Auditor General's reports. If management's response is not received, the Auditor General report may proceed and will include an explanation of the absence of management's response.
- (iv) Management responses will include at a minimum: management's concurrence or non-concurrence with the Auditor General's findings, an explanation of any mitigating factors, and a description of any actions taken to date to correct the problems identified by the Auditor General. If possible to provide without causing undue delay to the release of the Auditor General report, management's response will include future actions planned to continue to correct the situation.

(b) Follow up on Reports and Recommendations

- (i) The Auditor General will issue follow up reports to Council through the Audit Committee on the progress of actions as a result of recommendations;
- (ii) The follow-up reports will be issued within two years of the initial recommendations and to include management's response.

(6) Review of Auditor General's Accomplishments:

- (a) The Audit Committee shall conduct an annual review of the Auditor General based upon the submission of the Auditor General's report on accomplishments.
- (b) This review will provide Council with a summary of the accomplishments of the Auditor General as they relate to the audit plan. The review will not critique or questions the Auditor General's findings on any particular matter.

(7) Use of Independent Advisory Committees:

- (a) The Auditor General shall be permitted to establish independent advisory committees, or panels of external advisors on a standing or project-specific basis, to provide strategic advice and to monitor developments in the auditing profession.
- (b) The members of such panels shall serve without remuneration.
- (c) The establishment and membership of such panels shall be disclosed to Council.
- (b) The meetings of such advisory bodies will be convened and administered by the Auditor General's office and not the City Clerk.

(8) Budget Process and Spending Authorities:

- (a) As approved under Clause No.1 of Report No. 4 of the Policy and Finance Committee on March 4, 2002, the Auditor General budget will not be subject to the review by the CAO and EMT.
- (b) The budget will be submitted to the Audit Committee for review in consultation with the Chief Financial Officer.
- (c) The budget will then be forwarded to the Budget Advisory Committee for consideration along with the Chief Administrative Officer's comments.

(9) Working Protocol:

An important component of the auditing process will be the establishment of protocols for working with the organizations which are the subject of Auditor General audits (the "auditee").

The following steps shall be taken in the conduct of the Auditor General's work:

- (a) The Auditor General shall give notice to the appropriate official(s) of his or her intention to audit, including the particular program or issue to be audited;
- (b) There shall be an initial meeting between the Auditor General and the appropriate City official(s) to establish criteria and objectives for every audit project;
- (c) The Auditor General shall undertake his or her audit data collection and analysis.
- (d) The Auditor General shall submit a draft report submitted to the appropriate City officials.
- (e) The appropriate City officials shall submit a "management response" to the Auditor General.
- (f) The Auditor General shall undertake any further analysis that may be warranted upon receipt of the management response.
- (g) The Auditor General shall submit a copy of his or her final report to the appropriate City official(s), incorporating any management response, at the same time the report is submitted to City Council.

**The Policy and Finance Committee also submits the following communication (October 31, 2002) from the Chairman, Toronto Police Services Board entitled, “Impact of the Position of the City of Toronto - Auditor General Upon the Toronto Police Service with Regard to Audit Services”:**

Purpose:

The purpose of this report is to advise the Policy and Finance Committee of the Toronto Police Services Board’s decision with regard to internal audit services as the result of the newly created position “Auditor General, City of Toronto”.

Financial Implications and Impact Statement :

There are no financial implications in regard to the receipt of this report.

Recommendation:

It is recommended that the Policy and Finance Committee receive this report at its November 14, 2002 meeting.

Background :

At its meeting held on October 24, 2002, the Toronto Police Services Board was in receipt of a report, dated September 20, 2002, from Chief of Police Julian Fantino on the effect of the newly created position of City of Toronto – Auditor General with regard to audit services provided to the Toronto Police Service.

Comments:

Mr. Jeffrey Griffiths, City Auditor, was in attendance and responded to questions by the Board about the report.

The Board approved Chief Fantino’s report *in principle only* pending the release of the City Chief Administrative Officer’s review and on the basis that there is a decision to delete the audit function currently provided to the Toronto Police Service.

The Board also agreed to forward a copy of the report on this matter to the Policy and Finance Committee for information at its November 14, 2002 meeting.

Conclusion:

A copy of Board Minute No. P281/02, in the form attached as Appendix “A” to this report, regarding this matter is provided for information.

Contact:

Chief of Police Julian Fantino, Toronto Police Service, Tel: (416) 808-8000, Fax. No.(416) 808-8002.

List of Attachments:

Appendix A Board Minute No. P281/02

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Appendix "A"

This is an Extract of the Minutes of the Meeting of the Toronto Police Services Board held on October 24, 2002, Minute No. P281, entitled, "Effect of the City of Toronto Auditor General's Office upon the Toronto Police Service".

The Board was in receipt of the following report SEPTEMBER 20, 2002 from Julian Fantino, Chief of Police:

Recommendations:

It is recommended that:

- (1) the Board approve the request for the supplement of \$360,500 for the 2003 operating year from the City of Toronto in order to restore the Toronto Police Service's internal audit function; and
- (2) a copy of this report be forwarded to the City of Toronto's Chief Administrative Officer for inclusion in the 2003 operational budget process.

Background:

On March 27, 2000, the Board approved the use of City Audit Services as the Board's and Service's principal internal auditor. Plans were made to downsize the then unit of Policing Standards and the sum of \$321,200.00, representing civilian salaries and benefits, was turned over to the City in 2000 and used to increase the staff levels with the City Auditor's Office.

At the time of this transfer, the then Policing Standards Unit was performing audit work solely as directed by the Chief of Police and Command Officers. No audit work was being carried out on behalf of the Toronto Police Services Board. The only work requested by the Toronto Police Services Board and conducted by the Policing Standards Unit related to the review of the Intelligence Data Base and had last been reported on in February 1998. Therefore, the transfer of the \$321,200.00 resulted in a direct decrease of the Toronto Police Service's operating budget for 2000.

On April 3, 2002, the Toronto Police Service was notified by the City Auditor, Mr. Jeffrey Griffiths, that as a result of his forthcoming appointment to the role of Auditor General for the City, he would no longer be able to perform internal audit work for the Toronto Police Service. This change was also confirmed by Shirley Hoy, Chief Administrative Officer for the City of Toronto in her letter to Staff Superintendent David Dicks of Professional Standards, dated September 4, 2002. (Letter attached)

On May 23, 2002, Toronto City Council approved the creation of the Auditor General's Office and a steering committee was set up to deal with transition issues under the direction of the City of Toronto's Chief Administrative Officer.

As a result of this change, the Toronto Police Service will now have to perform its own internal audit work once more. In order for the Toronto Police Service to fulfil this task in an effective and efficient manner, the civilian positions which were deleted in 2000 will have to be re-instated and funding returned from the City of Toronto. The supplement requested is meant to restore funding that previously existed within the operating budget of the Toronto Police Service to carry out the internal audit function.

The re-establishment of the audit function within the Toronto Police Service will assist senior management in identifying, evaluating and managing risk related issues that represent potential and existing liabilities from a corporate perspective. In addition, this function will assist in ensuring that programs and projects of the Service are consistent with the long and short-term goals and objectives and ensure that changes are made when deficiencies or non-compliance are discovered.

The amount returned to the City of Toronto in 2000 was for a total of \$321,200.00. Taking into account yearly salary increase as per the Toronto Police Service Collective Agreements, the corresponding amount for 2002 is calculated as \$360,500.00. This is the amount of the supplement that is being requested from the City of Toronto. A business case relating to the return of these funds is attached to this Board submission.

Staff Superintendent David Dicks, Professional Standards, will be in attendance to answer any questions the Board may have in regard to this matter.

Mr. Jeffrey Griffiths, City Auditor, was in attendance and responded to questions by the Board about this report.

The Board approved the following Motions:

- (1) that the Board approve the foregoing report in principle only pending the release of the City Chief Administrative Officer's review and on the basis that there is a decision to delete the audit function currently provided to the Service; and
- (2) that the Board provide a copy of this report to the Policy and Finance Committee for information at its November 14, 2002 meeting.

Toronto Police Service - Effect of the Auditor General's Office re: the Toronto Police Service.

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(1) Business Case General Information:

Name:	Effect of the Auditor General's Office re: the Toronto Police Service
Start Date:	Funding required as soon as possible.
End Date:	Since the internal audit function would now be once again performed internally, funding would be required indefinitely.
Command:	Professional Standards
Business Case Author:	Dana Styra
Secondary Contact:	Steven Clarke
ITS Contact:	N/A
Facilities Management Contact:	N/A
Original Submission Date:	May 16, 2002
Latest Submission Date:	

Type of Project: Operating

Funding Source: City

(2) Executive Summary:

On March 27, 2000, the Board approved the use of City Audit Services as the Board's and Service's principal internal auditor. Plans were made to downsize the then unit of Policing Standards and the sum of \$321,200, representing civilian salaries, was turned over to the City in 2000 and used to increase the staff levels within the City Auditor's Office.

At the time of this transfer, the then Policing Standards Unit was performing audit work solely as directed by the Chief of Police and Command Officers. No audit work was being carried out on behalf of the Toronto Police Services Board. The only work requested by the Toronto Police Services Board and conducted by the Policing Standards Unit related to the review of the Intelligence Data Base and had last been reported in February 1998.

On April 3, 2002, the Toronto Police Service was notified by the City Auditor, Mr. Jeffrey Griffiths, that as a result of his forthcoming appointment to the role of Auditor General for the City, he would no longer be able to perform audit work on behalf of the Chief of Police. As a result, the Service will have to re-staff the civilian positions it gave up in order to fulfill its governance and internal auditing responsibilities. This change was also confirmed by Shirley Hoy, Chief Administrative Officer for the City of Toronto in her letter to Staff Superintendent David Dicks of Professional Standards, dated September 4, 2002. (Letter attached)

The amount returned to the City of Toronto in 2000 was for \$321, 200. Taking into account yearly salary increases as per the Toronto Police Service Collective Agreements, the corresponding amount for 2002 is \$360,500. This supplement amount is being requested from the City of Toronto.

The re-staffing of these positions will allow the Service to re-establish the internal audit function. This function will be instrumental in ensuring the Service objectives and goals are achieved by bringing a systematic and disciplined approach to the evaluation and improvement of the effectiveness of the risk management, control and governance processes.

(3) Background:

(3.1) Description and Scope:

On April 3, 2002, the Executive Review Committee of the Toronto Police Service met with the City Auditor, Mr. Jeffrey Griffiths, to discuss on-going audit issues related to the Service. At this meeting, Mr. Griffiths explained to the Committee



that as a result of his forthcoming appointment to the role of Auditor General for the City, he would no longer be able to perform reviews or internal audit work on behalf of the Chief of Police.

As a result, the Service will now have to re-staff the civilian positions it gave up in 2000 in order to fulfill its governance role and internal auditing responsibilities.

City Council, at its May 2002 meeting, approved the creation of the Auditor General's Office. Following the acceptance of this motion, all internal audit work being carried out by the City Auditor on behalf of the Chief of Police will cease. It is therefore imperative to restore the funding as soon as possible.

In order for the Toronto Police Service to fulfill its internal audit mandate in an effective and efficient manner, civilian positions will have to be re-filled and training provided in a timely fashion. As with any transition, there are always start-up costs and a learning curve to overcome, so the sooner these vacancies can be filled, the sooner the internal audit and review work can begin.

(3.2) Context:

On March 27, 2000, the Board approved the use of City Audit Services as the Board's and Service's principal internal auditors. This was a major change for the Service since an audit function had been in existence in various forms within the Toronto Police Service since the 1970's. On that date, the Policing Standards unit consisted of seven civilian and fourteen uniform members. Plans were made at that time to downsize the unit and turn over the functions to the City Auditor's Office.

The majority of the staff in the unit was then transferred to fill front line policing vacancies. Three uniform positions were retained to complete compliance reviews, quality assurance testing and meet the requirements of the Provincial Adequacy Standards.

The sum of \$321,000, representing civilian salaries, was turned over to the City in 2000 and used to increase staff levels within the City Auditor's Office. The equivalent amount in terms of 2002 salary rates is \$360,500. This is the amount that the Toronto Police Service is requesting to be returned so that the previously deleted positions can be re-stored.

We are now requesting that this funding, plus the yearly percentage wage increases since 2000 to 2002, be returned to the Toronto Police Service so that the internal audit and review function can be re-established within the Quality Assurance (QA) unit.

The re-establishment of this unit will ensure that senior management can continue to effectively identify, evaluate and manage risk-related issues that represent potential and existing liabilities from a corporate perspective. It will enable the

Chief of Police to conduct necessary reviews, research and identify and implement best practices in policing and business.

The role of the re-established function will be to provide an independent, objective assurance and consulting activity designed to add value and improve the Service's operations. This function will help the Service to accomplish its objectives and goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

(3.3) Dependencies:

The Service is dependant on regaining the salary amount previously turned over to the City in order for the Chief of Police to effectively ensure that the Service's mission, goals and objectives are met. This will be accomplished by ensuring that the re-established positions:

- (a) assist the Chief of Police in the governance of the Toronto Police Service as prescribed in "Duties of Chief of Police" *Section 41(1) of the Ontario Police Services Act*;
- (b) assist the Chief of Police to ensure that the Toronto Police Service's vision, mission and values are adhered to through verification of compliance to Service Procedures and Rules; and
- (c) provide an independent and objective review of the Toronto Police Service's operations through a professional and systematic approach as prescribed by *Section 35 of the Adequacy Standards Regulation, of the Ontario Police Services Act*.

(4) Impacts:

The re-establishment of the audit function within the Toronto Police Service will assist senior management in identifying, evaluating and managing risk related issues that represent potential and existing liabilities from a corporate perspective. In addition, it will allow for special reviews and research to be conducted along with benchmarking best practices in policing and the business environment.

The restored audit function will evaluate units, divisions and functional activities within the Service with respect to:

- (i) the *Ontario Police Services Act*;
- (ii) the Ontario Regulation for Adequacy Standards and other applicable legislation and programs;
- (iii) Service Policies, Rules, Procedures and Routine Order;
- (iv) any other policies, plans or regulations as set out by the Chief of Police; and
- (v) established risk management criteria and integrity issues.

The audit function will ensure that programs and projects of the Service are consistent with the long and short-term goals and objectives and that they are achieved efficiently and effectively. The function will also direct changes to be made when deficiencies or non-compliance is discovered and be in-charge of monitoring and evaluating the implementation of such changes.

In addition, the overall Toronto Police Service will be benefited by re-establishing this function since it will be able to provide specific expertise and professional advice to other internal units.

(4.1) Assumptions:

The amount returned to the City of Toronto in 2000 was for a total of \$321,200.00. Taking into account regular yearly salary increases as per the Toronto Police Service Collective Agreements, the corresponding amount for 2002 is \$360,500.

(4.2) Information Technology Impact:

None

(4.3) Cost:

The following summary represents the amount returned to the City of Toronto in 2000 and the corresponding accounts from which the funds were taken. The final amount shown - \$360,500.00, is the corresponding amount in terms of 2002 dollars and includes the cost of benefits.

Account	Yearly	Return	Supplement
	2000	2000	2002
1505	\$39,281	\$0	\$0
1505	\$43,535	(\$43,535)	\$48,287
1505	\$40,194	(\$40,194)	\$44,547
1505	\$61,022	(\$57,896)	\$67,678
1505	\$55,175	(\$55,175)	\$61,188
	\$239,207	(\$196,800)	\$221,700
1502	\$57,107	(\$58,200)	\$65,066
1502	\$96,622	\$0	\$0
1505	\$31,842	\$0	\$0
1505	\$38,654	(\$38,700)	\$42,884
	\$70,496	(\$38,700)	\$42,884
	\$463,432	(\$293,700)	\$329,650

Account	Yearly	Return	Supplement
	2000	2000	2002
Benefits at	9.36 percent	(\$27,500)	\$30,850
Total		(\$321,200)	\$360,500

(4.4) Project Benefits:

At this time, the financial benefits are unquantifiable, however, other intrinsic benefits would far outweigh the salary costs. Some of these benefits would include:

- (a) the ability of the Service to conduct operational and financial reviews and audits, thus ensuring that risk and liabilities are properly managed and kept to a minimum;
- (b) the ability of the QA unit to be available for the staff development program. The unit could serve to train uniform personnel for leadership roles in the Service;
- (c) the Service would be able to train uniform staff to conduct operational reviews while retaining the ability to deploy QA personnel to areas of need in a crisis situation or when the Chief deems it necessary to reduce non front-line officer to serve officer and community safety needs;
- (d) a core group of civilian members would be available to provide advice and expertise in their specialty areas; and
- (e) the QA unit would continue to be the liaison between the Service and the Auditor General's Office and continue to track the implementation of recommendations.

(4.5) Financial Summary:

Due to the inability to quantify specific benefits at this time, the overall costs reflect salaries and related benefits amounting to \$360,500.00.

(4.6) Non-Financial Impacts:

(4.6.1) 2002 – 2004 Service Priorities:

- (4.6.1.1) Youth Violence and Victimization of Youth;
- (4.6.1.2) Organised Crime;
- (4.6.1.3) Traffic Safety;

- (4.6.1.4) Drug Enforcement and Education;
- (4.6.1.5) Human Resource Development;
- (4.6.1.6) Service Infrastructure;
- (4.6.1.7) Community Safety and Satisfaction;

The re-establishment of an auditing function within the Toronto Police Service creates an opportunity for the Service to review whether the objectives of the service priorities are being met in an efficient, effective and economical manner and to make recommendations for improved service delivery.

No single Service priority can be singled out as being directly affected by the re-establishment of an audit function. However, because of the close link between certain of the Service priorities and the mandated Service delivery areas set out in the provincial adequacy standards regulation and accompanying policing standards guidelines, the Service priorities as a whole will be better met through the implementation of an independent, systematic audit function.

Service priorities that are closely linked to the requirements of Adequacy Standards include:

- (i) Youth Violence and Victimization of Youth;
- (ii) Organised Crime;
- (iii) Traffic Safety; and
- (iv) Drug Enforcement and Education.

Section 35 of Regulation 03/99 (Adequacy and Effectiveness of Police Services) made under the Police Services Act, requires the chief of police to establish a quality assurance process relating to the delivery of adequate and effective police services, and compliance with the Act and its regulations.

The ability of QA to conduct compliance reviews for the purposes of adequacy standards, provide timely review of issues arising in the course of business, and to handle other regularly scheduled work will be greatly enhanced through the re-establishment of the audit function.

4.6.2 Other Factors (not addressed above in Service Priorities):

- (4.6.2.1) Community-Based Crime Prevention;
- (4.6.2.2) Community Patrol;
- (4.6.2.3) Criminal Investigation;
- (4.6.2.4) Community Satisfaction;
- (4.6.2.5) Emergency Calls;
- (4.6.2.6) Violent Crime and Clearance;
- (4.6.2.7) Property Crime and Clearance Rates for Property Crime;
- (4.6.2.8) Assistance to Victims.

All of the issues identified in categories 4.6.2.1 through 4.6.2.8 are identified within the adequacy regulation and guidelines and for each, a process or reporting requirement exists. Quality Assurance is directly responsible for assessing the Service's compliance with these requirements. The re-establishment of the audit function will enhance the ability of QA to perform this function.

(4.6.3) Legislated Responsibility:

Ontario Regulation 03/99 (Adequacy and Effectiveness of Police Services) was made pursuant to the Police Services Act and came into effect on January 01, 2001. The intent of the regulation is to ensure that all police services in the province deliver the same core functions to the community in a similar manner. Compliance with the entire regulation is mandatory for all police services.

The core functions of policing are identified as: Law Enforcement, Victim's Assistance, Administration and Infrastructure, Crime Prevention, Public Order Maintenance, and Emergency Response Services.

Supplementing the regulation are a series of policing standards guidelines based on the core policing functions and designed to establish a 'best practices' approach to service delivery. Compliance with the guideline material is optional but strongly recommended by the Policing Services Division of the Ministry of the Public Safety and Security.

While a timetable for compliance measurement is not specifically mentioned in the regulation, QA has developed a three year cycle of testing based on a risk assessment of Adequacy Standards issues.

(4.6.4) Risk Associated with Not Funding/Undertaking Project:

- (4.6.4.1) Risk to Public or Officer Safety;
- (4.6.4.2) Risk to Organization or Public Confidence;
- (4.6.4.3) Financial Risk.

The reasons Ontario Regulation 03/99 were introduced was specifically to ensure that the above-named risks were identified and managed by all police services throughout Ontario. Due to the cutbacks made in 2000, the QA unit has been unable to address all of the risk-related issues on a timely basis.

Re-staffing the unit would provide personnel who could address such issues and provide recommendations for areas of non-compliance or areas where risks have been identified but have not yet been subject to operational reviews. Personnel assigned to the QA unit would ensure that operational reviews include an analysis of the above factors thereby minimizing risk to the organization and the public.

(5) Alternative Solutions Considered:

Alternative solutions have already been tested (i.e. Out-Sourcing of the Internal Audit Function) and due to the conflict of interest that arises for the Auditor General's Office to perform any internal audit functions, the only solution is to return this function to the Toronto Police Service.

Recommendations:

Based on the preceding analyses, it is recommended that:

- (1) an increase of \$360,500.00 in the operating budget for fiscal year 2002 above current levels to cover such costs as salaries and benefits as detailed in the business case be approved; and
- (2) that implementation of re-staffing internal audit positions begin immediately and be completed as soon as possible.

The Policy and Finance Committee also had before it the following material which was forwarded to all Members of Council with the November 14, 2002, agenda of the Policy and Finance Committee and a copy thereof is also on file in the office of the City Clerk, City Hall:

- a copy of Clause No. 6 embodied in Report No. 6 of the Audit Committee, entitled “Protocol - Monitoring the Implementation of City Auditor’s Recommendations” referred to in the communication dated November 8, 2002, from the City Clerk; and
- a communication dated September 4, 2002, from the Chief Administrative Officer addressed to Staff Superintendent David Dicks, Professional Standards, Toronto Police Service respecting Impact of the Newly Created Auditor General’s Office on the Toronto Police Service, referred to in the report dated October 31, 2002 from the Chairman, Toronto Police Services Board.