



# TORONTO STAFF REPORT

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January 6, 2004

To: Audit Committee  
From: Auditor General  
Subject: Audit Work Plan – 2004

Purpose:

To provide City Council with details of the Auditor General's work plan for the year ended December 31, 2004.

Financial Implications and Impact Statement:

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

Recommendations:

It is recommended that the 2004 Audit Work Plan for the Auditor General's Office, as set out in this report, be received for information.

Background:

The Auditor General's Office was created pursuant to a report prepared by Mr. Denis Desautels, former Auditor General of Canada, in May 2002 under a by-law approved by Council. The Auditor General is appointed by City Council and is independent of the City's administration. The Auditor General's Office is responsible for evaluating City programs, activities and functions of departments and agencies, boards and commissions, and of the offices of the Mayor and Members of Council.

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

The audit work plan has been developed on the basis of information available at the time of developing the plan. The work plan is necessarily dynamic and may be amended during the year to accommodate priority tasks.

This is the first year that the Auditor General is not required to conduct attest audits of various City entities including the Boards of Management of Community Centres and Committees of Management for Arenas. The recently amended Municipal Act section 296 (4) states that “the auditor of a municipality shall not be an employee of the municipality or of a local board of the municipality”. These particular audits are now conducted by a private sector public accounting firm and consequently these audits are excluded from the 2004 Annual Work Plan. However, the Auditor General continues to have a role in these audits due to his responsibility to oversee the work of the public accounting firm.

Comments:

It is not possible to audit all of the City’s operations during a twelve-month period. Determining which areas to audit at the City and allocating audit resources to those areas is fundamental to an effective audit process. In order to assess the relative importance of potential audit entities and to objectively develop an audit work plan, the Auditor General’s Office conducts a risk assessment modelling exercise of the City’s budgeted programs and revenue sources.

The purpose of the risk assessment exercise is to ensure that all areas of the City are evaluated from an audit risk perspective by using uniform criteria and also to prioritize potential audit projects. In developing the risk assessment model, best practices of other major city governments across North America and private sector entities were reviewed. The process followed by the Auditor General’s Office is a best practice.

In determining the extent of potential audit units, a review was conducted on the 2003 budget submissions of each City Department. As a result of this review, separate and individual business units within the City were identified, which were clear, and distinct audit units.

In developing the annual work plan, the Auditor General’s Office identified approximately 120 potential audit areas. Each one of these areas was separately evaluated in terms of audit risk and priorities.

The audit work plan for the fiscal year 2004 includes the following:

- Projects in Progress at December 31, 2003;
- Reviews Identified by the Auditor General (as a result of the risk assessment exercise);
- Annual Recurring Audits;
- Follow-up Audits, identified by the Auditor General’s Office;
- Fraud or Fraud Related Investigations;

- Information and Technology Reviews; and
- Audit Projects Requested by Council.

Details of the projects included on the work plan are outlined on Appendix 1. Detailed terms of reference for specific projects will be submitted to Audit Committee during the year. In addition, included in Appendix 2 is a list of potential audit projects, including follow-up audits, which are not included on the 2004 Work Plan. Depending on future priorities, these projects will be addressed in 2005 and onwards.

In addition to the above audit projects, the Auditor General's Office is also responsible for overseeing the work of Ernst & Young LLP, Chartered Accountants, the external financial attest auditors of the City and its local Agencies, Boards and Commissions. The Auditor General is also responsible for overseeing the work of the firm of Grant Thornton LLP, Chartered Accountants, who are the attest auditors of the Boards of Management of the Community Centres and the Committees of Management for the Arenas. The role of the Auditor General in connection with the attest audits is also incorporated into the 2004 Work Plan.

#### The Risk Assessment Process

An important component in any risk assessment model is the selection of risk factors against which each audit units are evaluated. The selected factors were compared with those being used by other North American cities, as well as private sector audit organizations, and were the subject of discussions and consensus among senior staff in the Auditor General's Office. As a result of this process, the following factors were used in the risk evaluation process of each of the 120 audit units throughout the City:

- the adequacy of documented policies and procedures in each unit;
- the extent of the revenues, expenditures, assets or liabilities of the entity. In other words, the materiality of the operations;
- an evaluation as to the quality of the internal controls within each entity;
- a determination as to whether or not the entity has an operating business plan;
- an evaluation as to the degree of liquidity of each entity's assets. This would include, for example, the extent of cash being handled or the susceptibility of other assets to misappropriation;
- the potential for liability against the City;
- an evaluation of the human resource competence both in terms of quality and quantity;
- the complexity of the operations of each entity; and

- the visibility of the program as reflected in its public and political sensitivity.

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

In considering the risk assessment, the risk factors were not evaluated equally as certain of them were viewed to be of more significance than others. Consequently, the process involved the determination of a specific weighting to each of the factors. This process was again conducted in consultation with senior audit staff, as well as research in other organizations in both the private and public sector.

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

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

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

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

Audit projects identified as a result of the assessment exercise are reviewed in detail by the Auditor General prior to including them in the annual work plan.

Audits that are of high risk may not necessarily be included in the work plan for various reasons. For example, the highest rated audits in the risk assessment process are:

- Waste and Wastewater Services Division; and
- Purchasing and Materials Management Division.

These projects have been excluded from the work plan due to the fact that in the area of Waste and Wastewater Services significant managerial and organizational changes are taking place in

2004 particularly in the context of the works best practices initiative. To conduct an audit in an environment where such significant change is taking place in 2004 would not be productive. However, this particular audit will continue to receive high priority in 2005.

In the case of Purchasing and Materials Management, a detailed review was conducted on this area in 2003 and the recommendations made as a result of this review are currently being implemented by staff. Consequently, no additional audit work is anticipated for this area in 2004.

Each one of the audit projects identified as a result of the risk assessment has been the subject of similar analysis.

#### The Scope of the Risk Assessment Process

The Auditor General is responsible for the audits of the City's Agencies, Boards and Commissions including, the Toronto Transit Commission, the Toronto Police Service, the Toronto Parking Authority and the Toronto Public Library. In developing the City-wide risk assessment, the Agencies, Boards and Commissions were excluded from the process and evaluated separately.

The Auditor General has met with the Chief Auditor of the Toronto Transit Commission in order to review his 2004 work plan. The 2004 work plan of the Commission was developed using the same methodology as the risk assessment process developed by the Auditor General. The work plan developed by the Chief Auditor at the Commission, in our view, provides an appropriate level of audit coverage for 2004 and consequently the Auditor General does not, at the moment, plan any further audit work at the Toronto Transit Commission. The Chief Auditor of the Commission and the Auditor General will meet on a regular basis throughout the year to review audit reports issued and to ensure that any emerging issues are appropriately dealt with.

In addition, the Auditor General has also met with the external attest auditors of the Commission. Any issues identified by them during their attest audit will be considered during the audit process of both the Auditor General and or the Chief Auditor of the Commission. These meetings will continue during 2004.

The Auditor General has also met with the Acting Deputy Chief of Police and the head of the Quality Assurance / Professional Standards Unit at the Toronto Police Service. The purpose of the meeting was to discuss the work plan of the Quality Assurance / Professional Standards Unit during 2004 and to determine whether or not there were audit issues which needed to be addressed over and above those included as follow-up audits in the Auditor General's 2004 Work Plan. The follow-up audits planned by the Auditor General's Office for 2004 relates to the parking enforcement unit currently in progress and the review of police overtime. The major project planned by the Quality Assurance / Professional Standards Unit relates to Court Services.

The follow up audit work conducted by the Auditor General's Office at the Toronto Police Service will be coordinated, if appropriate, with the Quality Assurance / Professional Standards Unit of the Toronto Police Service.

An additional recurring audit relates to the audit of the Public Complaints process at the Toronto Police Service. A major review of this area was conducted in 2003. The Province has indicated that it intends reviewing this particular area and that changes will likely occur. Consequently, this audit is not planned for 2004.

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

In regard to the Toronto Parking Authority and the Toronto Library Board, the Auditor General and the external attest auditors meet during the year and at the conclusion of the attest audits to identify issues of concern, if any. Depending on priorities, work, which may be required at each of these entities, will be incorporated into the work plan. A review of the Toronto Parking Authority's operations was conducted in 2002. Unless issues of concern are identified, no further review is anticipated prior to a follow-up audit of the 2002 review.

While other Agencies, Boards and Commissions were excluded from the risk assessment review (including the Toronto Zoo and Exhibition Place), the Auditor General has conducted work in these areas over the past number of years. Ongoing discussions are held with the external attest auditors of each of these entities throughout the year. If emerging issues of concern are identified, depending on other priorities, audit resources will be redeployed to address them. Nevertheless, a follow-up audit of revenue controls at the Toronto Zoo is planned for 2004.

Finally, ongoing monthly meetings are held with the Director of Internal Audit in order to ensure that both parties are aware of audit plans and emerging issues of concern. The work of the Internal Audit Group is taken into account during the determination of the Auditor General's annual work plan. In addition, the results of our risk assessment model are shared with the Director.

#### Conclusions:

The 2004 Work Plan is a combination of projects in progress carried forward to 2004, projects identified as a result of the 2004 risk analysis, annual recurring audits, follow-up audits, forensic investigations, and projects requested by City Council. The work plan also considered projects planned by the Toronto Transit Commission, the Toronto Police Service and the City's Internal Audit Group. In addition, ongoing dialogue takes place with the City's external attest auditors in order to address areas of concern.

The work plan will be amended if additional projects of high priority are identified during the year.

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List of Attachments:

- Appendix 1: Auditor General's Office – 2004 Work Plan
- Appendix 2: Auditor General's Office – Major Audit Projects not Included in the 2004 Work Plan

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Auditor General's Office  
2004 Work Plan

1) Projects in Progress at December 31, 2003

Fleet Operations Review (Phase 1)  
Oracle Database Environment Review  
Access and Equity Review  
Telephone System – Forensic Audit  
Parks and Recreation Division – Review of CLASS Registration System  
Transportation Services Division – Review of the Toronto Maintenance Management System  
Follow-up re Audit of the Investigation of Sexual Assaults, Toronto Police Service  
Follow-up re Review of Parking Enforcement Unit – Toronto Police Service  
The Rotation of External Auditors  
A Review of Severance Payments  
SAP Financial and Human Resources/ Payroll Information Systems – Status of Recommendations  
Parks and Recreation Division – Cash Controls Review  
Hostel Operations Review  
Review of Environmental Liabilities

2) Reviews Identified by the Auditor General

Corporate Finance, Cash and Investment Management Review  
Payroll Processing, including the management of employee benefits  
Transfer, Processing and Disposal operations, Solid Waste Management, including contract management  
Effectiveness of Fire Prevention Program and Public Education, including compliance with legislation  
Fleet Operations Review (Phase 2)  
Review of the Inspection and Project Management Function – District Engineering Services  
Emergency Medical Services – Operational Support  
Property Tax Billing and Appeals Processing  
Municipal Licensing and Standards Review  
Social Services – Quality Control Unit  
Toronto Animal Services – Operational Review  
Fire Department – Review of Overtime  
Fleet Operations:  
    Toronto Police Service  
    Fire Services  
    Emergency Medical Services  
Real Estate – Maintenance and Administrative Controls  
Golf course operations including revenue controls

3) Annual Recurring Reviews/Audits

The major work included under this heading relates to the coordination and management of the external audits of the City, and its Local Agencies, Boards and Commissions as well as the Boards of Management of Community Centres and Arenas.

4) Follow-up Audits identified by the Auditor General's Office

It is the practice of the Auditor General's Office to conduct periodic follow-up audits of projects previously completed. There is no set time frame in regard to the conduct of follow-up audits but generally, they are scheduled based on:

- competing priorities;
- the relevant importance of the original audit;
- the extent of recommendations made as a result of the original audit; and
- the potential for increasing revenues or decreasing costs of the City.

Follow-up audits are conducted to ensure that issues identified in previous reports have been addressed. In addition, if new audit issues are identified they are also reviewed and reported on. Follow-up audits anticipated in 2004 are as follows:

- Toronto Police – Overtime and Premium Pay
- Cash Controls Review – Toronto Zoo
- Building Services Division Review
- Corporate Absenteeism / Attendance Management Review
- Parking Tag Operations Review

5) Fraud or Fraud Related Investigations

Frauds or other irregularities are identified in a number of ways at the City. Such instances are identified as follows:

- by the Auditor General as a result of his ongoing audit work;
- by management; and
- communication to the Auditor General via the Fraud and Waste Hotline

The investigation of fraud or other irregularities will continue to receive high priority through 2004. It is difficult to project the extent of investigative work that will be required during 2004 as this depends on the extent of fraud identified.

6) Information Technology Reviews

The following Information Technology Reviews were identified during the risk assessment process:

- Review of the City's Information Technology Asset Management Program;
- Review of the Delivery of City-wide Telecommunication Services; and
- Acquisition Process for Photocopier Equipment.

7) Reviews Requested by City Council

Audit Committee during 2003 expressed concerns in relation to the City's disaster recovery plan as it relates to Information Technology. Audit Committee recommended that this review be included on the Auditor General's 2004 Audit Work Plan. This recommendation was approved by City Council.

Auditor General's Office  
Major Audit Projects not Included in the 2004 Work Plan

City Planning – Community Planning  
Corporate Finance, Review of Insurance and Risk Management  
Children's Services – Day Care Fees  
Shelter Housing and Support various projects  
Controls relating to the Sale of Assets including Real Estate  
Fire Services, Professional Development and Training  
Social Services – Area Offices Review  
Social Services Welfare Processing  
Human Resources Division – Labour Relations  
Finance Department – Accounting Division  
Homes for the Aged – Operational Review  
Human Resources Division – Hiring Practices  
Homes for the Aged – Trust Funds Administration and Accounting  
Payroll Administration and Controls – Agencies, Boards and Commissions  
SAP Review – Opportunities for Economies of Scale with City's Agencies, Boards and Commissions  
Homes for the Aged – Residents Fees  
Investment Income, including income earned by the Agencies, Boards and Commissions  
Major Capital Project Management  
Corporate Finance – Debt Administration  
Rental and Concessions Income  
Inventory Controls at various locations  
Accounting and Controls relating to Provincial Operating Grants  
Accounting and Controls relating to Provincial Capital Grants  
Fees from Ferry Services  
Fees from Parking – On-street and Off-street  
Fines and other Library related income  
Canadian National Exhibition – Admissions, Concessions, Rent and Ride Revenue  
Theatre Admission Revenue  
Revenue at Community Centres and Arenas  
Toronto Police Service – Review of Training Program  
Toronto Police Service – Technology Review  
Toronto Public Health:  
    Review of Non Mandatory Programs  
    Dental and Oral Health Services  
    Healthy Environments  
    Communicable Disease Control  
Reserves and Reserve Fund Controls and Administration  
Toronto Parking Authority:  
    Long Term Investments  
    Property Acquisitions and Disposals

Procurement Reviews, Agencies, Boards and Commissions, including Toronto Library,  
Toronto Parking Authority, Toronto Zoo, Exhibition Place  
Trust Funds – Toronto Library Board  
General internal controls at Agencies, Boards and Commissions  
Selections and Hiring of Professional and Consulting Services, Agencies, Boards and  
Commissions

Various Follow-up Reviews, including the following:

Selection and Hiring of Professional and Consulting Services Review  
Permits and Lottery Licenses Review  
Commercial Garbage Collection Review  
Contract Management Procedures – Transportation Services Division  
Community and Neighbourhood Services – Community Services Grants Program Review  
Environmental Issues and Audit Plan  
Fair Wage Policy and Procedures Review  
Information Security Framework Review  
Scheduling Process Review – Toronto Emergency Medical Services  
Contract Compliance Review – Viacom Outdoor Canada Inc.  
Works Best Practices – Quality Assurance / Quality Control  
Toronto Parking Authority – Courtesy Envelopes  
Petty Cash Count Review Recommendations  
Revenue Controls Review – Toronto Police Service  
Toronto Atmospheric Fund – Grants Program