

# TORONTO STAFF REPORT

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January 18, 2006

To: Audit Committee  
From: Auditor General  
Subject: 2006 Audit Work Plan

Purpose:

To provide City Council with details of the Auditor General's Audit Work Plan for the year 2006.

Financial Implications and Impact Statement:

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

Recommendation:

It is recommended that the 2006 Audit Work Plan for the Auditor General's Office be received for information.

Background:

The Auditor General's Office was created in May 2002, under By-law No. 1076-2002 approved by Council. The Auditor General is appointed by City Council and is independent of the City's administration. The Auditor General is responsible for evaluating City programs, activities and functions of Divisions, including its Agencies, Boards and Commissions, the Office of the Mayor and Members of Council. The Auditor General's Office is also responsible for the operation of the City's Fraud and Waste Hotline Program.

The 2002 By-law requires that an annual audit work plan be submitted to City Council and provides that no deletions or amendments to the audit work plan be made, except by the Auditor General. Council, however, may add to the audit work plan by a two-third's majority vote.

In relation to financial attest audits of the City, Section 296 (4) of the Municipal Act states, "the auditor of a municipality shall not be an employee of the municipality or of a local board of the municipality." A private sector public accounting firm now conducts attest audits of the City

itself and various City entities, including the Boards of Management of Community Centres and Committees of Management for Arenas. Consequently, these audits are excluded from the 2006 Audit Work Plan. However, the Auditor General continues to maintain an oversight role in these audits as the administrator over public accounting firm contracts.

Comments:

2006 Audit Work Plan

The Auditor General's 2006 Audit Work Plan includes information describing audit projects planned during the year, as well as information related to long-term audit planning, special projects and follow-up on outstanding audit recommendations. It should be noted that not all of these projects will be completed during 2006 as some will be started later in the year and only completed in 2007. The 2006 Audit Work Plan includes three appendices as follows:

- Appendix 1: Auditor General's Office – 2006 Audit Work Plan, includes a listing of the specific projects planned for 2006. Detailed terms of reference for specific projects will be submitted to the Audit Committee during the year.
- Appendix 2: Auditor General's Office – Priority Audit Projects Deferred represents a listing of potential projects not included in the 2005 Audit Work Plan because of staff resource limitations. These are projects we believe should be conducted as soon as possible. Depending on future priorities, these projects will be carried forward to future audit work plans.
- Appendix 3: Auditor General's Office – Preliminary 2007-2011 Long Range Plan, includes audits identified in the Auditor General's 2003 Risk Assessment, updated for events since that analysis and projected to be included in future audit work plans.

Projects included in the 2006 Audit Work Plan provided in Appendix 1 are classified into six categories as follows:

1. Projects in Progress
2. New Projects
3. Annual Recurring Audits
4. Fraud Related Investigations
5. Follow-up of Audit Recommendations
6. City Council Requests

In addition to the projects listed in Appendix 1, the Auditor General is responsible for overseeing the work of the external financial attest auditors of the City, its local Agencies, Boards and Commissions, the Boards of Management of the Community Centres and the Committees of Management for the Arenas. The oversight role of the Auditor General, in connection with these attest audits, is also incorporated into the 2006 Audit Work Plan.

### Risk Assessment Analysis

Determining which areas to audit and the appropriate allocation of audit resources is essential in realizing the true value of an effective audit process. In order to assess the relative importance of potential audit areas and to objectively develop an audit work plan, the Auditor General conducted a risk assessment of the City's programs and services in 2003.

The purpose of the risk assessment exercise was to ensure all areas of the City are evaluated from an audit risk perspective by using uniform criteria and to prioritize potential projects based on objective risk analysis. The 2003 City-wide risk assessment conducted by the Auditor General forms the basis for the 2006 Audit Work Plan. It is anticipated that a comprehensive and updated reassessment of risk will be undertaken in 2008.

High-risk areas identified in the risk assessment were considered along with information that has come to our attention since that time. As previously mentioned, several high-risk audits have not been included in the 2006 Audit Work Plan and are identified in Appendix 2.

### Other Steps Taken in the Formulation of the Audit Work Plan

In formulating the 2006 Audit Work Plan, the Auditor General consulted with a number of internal representatives from the City's Agencies, Boards and Commissions, including the Toronto Transit Commission, the Toronto Police Service and the Toronto Public Library.

In regard to the Toronto Transit Commission and the Toronto Police Service, further deliberations were held with the internal audit units of each organization. These discussions were held in order to:

- evaluate the extent of work done by each of the units; and
- ensure that audit work planned by the Auditor General's Office are not a duplicate of any audit work conducted by the respective internal audit units.

The Auditor General attends the Audit Committee meetings of the Toronto Transit Commission and reviews the results of all audit projects conducted by the Internal Audit Unit. The Auditor General is also aware of the contents of the Toronto Transit Commission Annual Audit Work Plan.

In addition, the Auditor General attends a number of Internal Police Command meetings during the year. Audit issues and on-going audit work plans are reviewed at the meeting. The Audit Work Plan for the Toronto Police Service will be approved at the Command meeting of February 13, 2006. The Auditor General will be in attendance at this meeting.

Regular meetings are held with the City Manager's Internal Audit Division to ensure that projects in progress or planned are co-ordinated and emerging issues of concern are discussed. The work of the Internal Audit Division is taken into account during the determination of the Auditor General's Audit Work Plan.

In addition, the Auditor General consulted with the external attest auditors of the Agencies, Boards and Commissions. Any issues identified during their attest audits will be considered during the audit process.

Discussions were also held with the City Manager and Chair of the City's Audit Committee in connection with the Work Plan.

### Audit Follow-Up

Follow-up on audit recommendations is important to ensure that management has taken appropriate action to implement recommendations identified in the audit report. Government Auditing Standards require audit follow-up to determine the status of outstanding audit recommendations. The Auditor General's Office has implemented a formalized follow-up process and will be reporting to the Audit Committee in June of 2006 on the status of all recommendations made since January 1, 1999.

The general framework of the proposed process includes the following:

- (a) Upon submission of the Auditor General's original report and management's response to City Council, the recommendations and expected date of implementation are recorded. On a semi-annual basis (every six months), the Auditor General notifies the City Manager or other appropriate management representative (in the case of the Agencies, Boards and Commissions) in writing of all outstanding audit recommendations.
- (b) The responsible division management official provides a written status report to the City Manager or other appropriate management representative (in the case of the Agencies, Boards and Commissions). The written report on the status of outstanding audit recommendations is then reported to the Auditor General.
- (c) Upon notification that corrective action has been taken to implement the recommendation, the Auditor General takes the necessary steps to verify that corrective action has been taken and provides a semi-annual status report on all outstanding audit recommendations to the Audit Committee and City Council.

Implementation of this revised approach to follow-up on outstanding audit recommendations is currently underway and time is included in the Auditor General's 2006 Audit Work Plan for the necessary verification procedures.

### The Audit of the Auditor General – External Quality Control Review

Government Auditing Standards require that audit organizations provide for an external quality control review at least every three years. This review, also known as Peer Review, consists of a team of external audit professionals who assess the adequacy of the Auditor General's internal quality control system and its overall level of compliance with Government Auditing Standards. This is the first time that any Canadian municipality will have conducted such a review.

The Peer Review is scheduled for the week of February 20, 2006. Upon completion of the Peer Review, the Auditor General will communicate the results to the Audit Committee and City Council.

#### Recurring Reports Required by City Council

In December 1999, City Council adopted the Chief Administrative Officer's report entitled "Human Resources and Cost Implications of the Recommendations of the Task Force on Community Access and Equity and Clarification of the Term Employment Equity" and a joint report (December 14, 1999) from the Chief Administrative Officer and the Task Force on Community Access and Equity on the establishment of City-wide Community Advisory Committees.

At the above meeting, City Council adopted, as amended, the 89 recommendations of the Task Force on Community Access and Equity. With an additional eight recommendations made by City Council, the Final Report of the Task Force on Community Access and Equity contained 97 recommendations.

The Task Force recommendation number 85, as amended, reads as follows:

"Once in each term of Council, the City Auditor oversee an internal audit of the performance by the corporation as a whole in achieving its access, equity and human rights goals."

- (a) a reference group be established to advise the City Auditor in carrying out his responsibility to oversee an internal audit of the performance of the Corporation in achieving its access, equity and human rights goals once in each term of Council; and
- (b) the membership of the reference group include members of the community advisory committees and be chaired by a member of Council."

In response to this request, we issued a detailed report in January 2004, entitled: "Review of the Implementation of Recommendations of the Final Report of the Task Force on Community Access and Equity." This report contained 15 separate recommendations.

As part of the audit process follow-up described earlier, we will evaluate the extent of implementation of the recommendations

While Council's request in 1999 required that "once in each term of Council, the City Auditor oversee an internal audit of the performance by the corporation as a whole in achieving its access, equity and human rights goals", this project has not been included in the Auditor General's Work Plan. In terms of audit risk, this project is not be considered a high priority especially in view of other outstanding audit projects, as well as the backlog of work required as a result of the significant increase in activity in the Fraud and Waste Hotline.

The request to consider an audit was directed prior to the establishment of the Auditor General's Office. If City Council considers this project to be a high priority, then in accordance with the Auditor General's By-law, a two-thirds majority vote of Council is required to add this project to the Annual Audit Work Plan.

Conclusions:

The 2006 Audit Work Plan is a combination of projects in progress, new projects, annual recurring audits, fraud investigations, follow-up audits and projects requested by City Council. In addition, the Audit Work Plan provides for the Auditor General's oversight of the City's external attest audits. Special projects included in the 2006 Audit Work Plan include a process to complete an initial and extensive follow-up of audit recommendations made since January 1, 1999 and final preparation for the Auditor General's upcoming External Quality Assurance Review (Peer Review). The Audit Work Plan is intended to be flexible and will be amended if additional projects of high priority are identified during the year.

The 2006 Audit Work Plan provides a balance of audit work that once complete, will result in improving the overall operations of the City by strengthening management controls, improving accountability and enhancing the efficiency and effectiveness of municipal services.

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Auditor General

List of Attachments:

- Appendix 1: Auditor General's Office – 2006 Audit Work Plan
- Appendix 2: Auditor General's Office – Priority Audit Projects Deferred
- Appendix 3: Auditor General's Office – Preliminary 2007-2011 Long Range Plan

Auditor General's Office  
2006 Audit Work Plan

1. Projects in Progress

The following projects are currently in progress:

- Fines and Related Income – Toronto Public Library
- Fire Services Division Operational Review
- Information Technology Asset Management Program Review
- Resident Fees and Trust Funds Review – Homes for the Aged Division
- Tax Appeals and Assessment – Revenue Division
- Training Program – Toronto Police Service
- Committee of Adjustment Review

2. New Projects

The following projects have been included in the 2006 Audit Work Plan:

- Rental Income, City Owned Property – Facilities and Real Estate
- Payroll Phase II – Employee Benefits
- Day Care Fees – Children's Services Division
- Management of Information Technology Projects – Toronto Transit Commission
- Management of Information Technology Projects – City of Toronto
- Water Billing Process and Controls
- Audit of Selected Major Revenue Streams – Corporate-wide project
- Review of City Operated Community Centres
- Toronto Water - Wastewater Treatment
- Payments for Utilities
- Solid Waste Transfer and Disposal Operations – Review of Major Contracts
- Information Technology Disaster Recovery Plan
- Capital Program, Parks, Forestry and Recreation
- Contract Management - Various

3. Annual Recurring Audits

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

4. Fraud Related Investigations

Frauds or other irregularities are identified by the Auditor General as a result of ongoing audit work, notification by management, or through the Fraud and Waste Hotline.

The investigation of fraud or other irregularities will continue to receive high priority through 2006. It is difficult to project the extent of investigative work required during 2006, as this depends on the concerns identified.

5. Follow-up of Audit Recommendations

The Auditor General's Office has implemented a formalized follow-up process related to recommendations made in prior audit reports. Implementation of this revised approach to follow-up on outstanding audit recommendations is currently underway and time is included in the Auditor General's 2006 Audit Work Plan for the necessary verification procedures. We anticipate reporting to the Audit Committee in June of 2006 on the outcome of this follow-up process.

6. City Council Requests

From time to time, the Auditor General receives requests for audit work or information from the City Council. An allocation of time is set aside for requests of this nature.



Auditor General's Office  
2006 Audit Work Plan

Priority Audit Projects Deferred

The projects listed below include areas considered to be of a "high risk" and should be completed as soon as possible. However, these have been deferred to future audit work plans due to a lack of adequate audit resources:

- Risk Assessment of the City's Agencies, Boards and Commissions
- Sale of Real Estate Assets
- Review of Standby, Callback and Overtime Charges – Solid Waste Division
- Social Services – Overpayments Phase II – Active Clients
- Internet Access Review

Auditor General's Office  
2006 Audit Work Plan

Preliminary 2007–2011 Long Range Plan

- Collections, Accounting, Refunds, Payments – Tax/Water/Parking Tags
- Major Capital Project Management
- Reserves and Reserve Fund Controls and Administration
- Rental and Concessions Income
- Selection and Hiring of Professional and Consulting Services, Agencies, Boards and Commissions
- Parking Fees – On-street and Off-street
- Professional Development and Training – Fire Services
- Controls over Winter Road Operations
- Ferry Services Fees – Administrative Controls
- General Internal Controls at Agencies, Boards and Commissions
- Inventory Controls at Various Locations
- Accounting Division – Finance Department Review of Various Controls
- District Engineering Services – Works and Emergency Services
- Procurement Reviews, Agencies, Boards and Commissions
- Revenue at Community Centres and Arenas
- Theatre Admission Revenue
- Toronto Parking Authority:
  - Long Term Investments
  - Property Acquisitions and Disposals
- Toronto Public Health:
  - Review of Non-mandatory Programs
  - Dental and Oral Health Services
- Treasury and Financial Services, Review of Insurance and Risk Management
- Toronto Police Services Board – Review of Overtime