

**Auditor General's Office  
2009 Budget**

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**Auditor General's Office**

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Jeffrey Griffiths, C.A., C.F.E.  
Auditor General  
City of Toronto

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## **THE AUDIT FRAMEWORK AT THE CITY OF TORONTO**

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework. The *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".

The 2002 audit framework established three levels of audit services for the City of Toronto. This framework is consistent with best practices in most major Cities.

- (1) The Auditor General's Office was created in order to report directly to and provide assurance strictly for City Council. The *Act* has not changed this requirement.
- (2) A separate Internal Audit Division reporting to the City Manager was established to provide assurance for the City's Executive Management Team. While the establishment of an Internal Audit function is not a legislative requirement, it does represent best practice and is consistent with practices in other large government organizations.
- (3) As required by the *Act*, an external auditor is appointed by City Council to perform the annual statutory audit of the City's financial statements including Agencies, Boards and Commissions and provide an opinion on the fairness of the information presented in these financial statements.

In addition to the audit framework within the City there are separate and distinct audit functions in two of the City's major local Boards; the Toronto Transit Commission and the Toronto Police Service. Both of these audit functions operate in much the same way as the City's Internal Audit Division and report directly to the Chief General Manager of the TTC and the Chief of Police respectively.

### **The Auditor General's Office**

City of Toronto By-law No. 1076-2002 enacted in 2002, and set out in Chapter 169 of the Municipal Code, established the Auditor General's Office, duties and responsibilities. As indicated above, the *Act* mandates the appointment of an Auditor General who reports to City Council. Under Section 178 (1) of the *Act* "the Auditor General is responsible for assisting City Council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations."

### **The Internal Audit Division – City Manager's Office**

The Internal Audit Division reports to the City Manager and is responsible for providing internal audit services and support to senior management in the City. The internal audit function provides impartial and objective assurance, consulting services designed to improve the administration of municipal operations and promotes compliance with City policies and procedures.

## **External Annual Financial Audits**

Under Section 139 of the *Act*, the City is required to appoint an auditor licensed under the Public Accounting Act 2004, who is responsible for annually auditing the accounts and transactions of the City and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. Also in accordance with the *Act*, the auditor shall not be appointed for a term exceeding five years and shall not be a City employee or an employee of a local board of the City. The auditor reports to City Council.

Ernst & Young, LLP an external public accounting firm, is responsible for the annual statutory audit of the City's financial statements under a five-year contract that ended December 2007. In March 2008, City Council approved a contract extension with Ernst & Young LLP for statutory audit services through 2008 and 2009. The Auditor General is responsible for issuing the request for proposal to secure the external audit services required by the City and maintains an oversight role for these statutory audits.

Separate external auditors have been appointed for the City Community Centres, City Arenas and a number of other City entities (Heritage Toronto, Yonge-Dundas Square, the Toronto Atmospheric Funds and the Clean Air Partnership). In May 2008, City Council approved a contract with Grant Thornton LLP to perform financial statement audits for each one of these entities.

## **Internal Audit Functions at the Toronto Transit Commission and the Toronto Police Service**

Separate internal audit functions exist at both the Toronto Transit Commission and the Toronto Police Service. The internal audit function at the Toronto Transit Commission and the Toronto Police Service each report directly to management in a similar manner to the City's Internal Audit Division.

## **THE AUDITOR GENERAL'S OFFICE**

As outlined under Section 178 of the *Act*, "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."

The audit process is an independent, objective assurance activity designed to add value and improve an organization's operations. The audit process assists an organization in accomplishing this objective by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

## **Responsibilities of the Auditor General**

In carrying out its audit activities, the Auditor General's Office is independent of management, and has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City divisions, and those local boards provided for under the *Act* and such City-controlled corporations and grant recipients as City Council may specify. The Auditor General reports to Council through the Audit Committee.

Specific responsibilities of the Auditor General include:

- audit projects identified by the Auditor General included in the annual work plan and identified through the Auditor General's annual risk assessment;
- the conduct of forensic investigations including those involving suspected fraudulent activities;
- providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;
- conducting special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council;
- overseeing the work and the contract of the external auditors performing financial statement audits; and
- managing the Fraud and Waste Hotline Program, including the investigation of complaints, as well as the referral of certain concerns and issues to divisional management and the Internal Audit Division.

Audit work at the City requires coordination with the City Manager's Internal Audit Division, as well as similar audit groups at the Toronto Transit Commission and the Toronto Police Service. The Auditor General meets with each of these groups on a regular basis in order to ensure that he is aware of any audit concerns and to ensure that there is no duplication of audit work.

The Auditor General also meets on a regular basis with both the external auditor and the City's Integrity Commissioner to discuss any issues of mutual concern including any matters of concern arising from complaints reported through the City's Fraud and Waste Hotline. Once the Ombudsperson office is established, a similar arrangement will be formulated with this office.

## **Professional Audit Standards**

The Auditor General's Office conducts its audit work in accordance with generally accepted Government Auditing Standards. Audits are conducted in accordance with these standards, which relate to independence, objectivity, professional proficiency, scope and performance of work and departmental management. Staff are also bound by the standards and ethics of their respective 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 Internal Auditors. All professional members of the Auditor General's Office have at least one professional designation. Details of staff qualifications are provided on the following web site [http://www.toronto.ca/audit/about\\_audit.htm#staffing](http://www.toronto.ca/audit/about_audit.htm#staffing).

## **Independent Quality Assurance Review of the Auditor General's Office**

One requirement of Government Auditing Standards is that audit organizations undergo an external independent quality assurance review at least once every three years. The objective of a quality assurance review is to determine whether an audit organization's internal quality control system is in place and operating effectively. A quality assurance review provides assurance that established policies and procedures and applicable auditing standards are being followed.

The Auditor General's Office underwent its first quality assurance review during 2006. No other audit office in Canada has undergone such a process. Two reports were issued by representatives from the Association of Local Government Auditors an independent professional body which conducts a significant number of quality assurance reviews. The reports issued by ALGA are attached to this report as Attachments 2 and 3. The Auditor General's Office will undergo its second external quality assurance review in February 2009. Results from the review will be communicated to Audit Committee and City Council.

## **Staff Training**

The Auditor General's Office is committed to ensuring that staff maintain professional proficiency through continuing professional education (CPE) in accordance with [Generally Accepted Government Auditing Standards](#). These standards require that each auditor complete 80 hours of CPE every two years with at least 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

The Auditor General's Office establishes and funds a training program each year to assist staff in meeting these requirements. An internal Training Committee oversees the training program of the Office. Staff must prepare an annual training plan outlining the courses or activities to be undertaken to meet the CPE hourly requirements described above, to retain professional certification, or to meet staff's professional needs. These plans are approved by senior staff. The Office maintains a record of each staff member's training.

One of the issues reviewed during the quality assurance review process relates to the training records of each staff member in order to ensure that CPE hours are in compliance with requirements.

## **THE AUDITOR GENERAL’S OFFICE – 2009 BUDGET REQUEST**

Details relating to the 2009 budget request for the Auditor General’s Office are as follows:

	<b>2009 Budget Request</b>	<b>2008 Approved Budget</b>	<b>2008 Projected Actual</b>
Salaries	3,039,986	2,984,294	2,915,778
Employee Benefits	717,358	705,937	681,287
Services, Materials and Supplies	115,903	115,921	83,692
Interdepartmental Charges	22,072	22,722	21,943
<b>Sub Total</b>	<b>3,895,319</b>	<b>3,828,874</b>	<b>3,702,700</b>
External Audit Fees	440,755	440,755	483,766
<b>Total</b>	<b>4,336,074</b>	<b>4,269,629</b>	<b>4,186,466</b>

### **2009 Budget Request**

The amount of \$4,336,074 is the Auditor General’s budget request for 2009. This amount includes \$440,755 relating to external audit fees. The budget represents the Auditor General’s detailed analysis of audit resource requirements including the operation of the Fraud and Waste Hotline Program for the City. The budget request of the Auditor General for 2009 has increased by \$66,445.

The Auditor General has no control over the \$440,755 in external audit fees paid to the external audit firms as the amount is pre-determined based on the Council approved two year contract extension for fiscal years 2008 and 2009.

The increase in the Auditor General’s budget from 2008 to 2009 is 1.6 per cent.

### **Consequence of Decrease in Budget**

The Auditor General’s Office currently operates with a staff of 26 professionals and three administrative staff. The budget represents a “status quo” for 2009.

In order to reduce the budget to last year's level of \$4,269,629 an amount of \$66,445 would have to be deducted from the 2009 budget request. This can only be accomplished through the reduction of one staff. In addition, the City Manager had requested all City divisions to indicate the impact of a further budget reduction of two percent below the 2008 approved operating budget. For the Auditor General's Office this would be a further reduction of \$85,393 for a total potential budget reduction of \$151,838. Such a reduction could only be achieved by reducing our current staff complement by two.

### **External Audit Fees**

The majority of the Auditor General's 2009 budget request consists of salaries and benefits. The Auditor General has no control over the \$440,755 in external audit fees paid to the external audit firm as the amount is predetermined based on the approved two-year contract extension for fiscal years 2008-2009. If the amount of \$440,755 for external audit fees is excluded from the budget of the Auditor General's Office, the percentage of the salaries and benefits to the total budget is just over 96 per cent.

The current five-year contract for external audit services ended with the audit of the December 31, 2007 financial statements. In March 2008, Council approved a two-year extension to the current contract for fiscal years 2008 and 2009. The reasons for the contract extension are provided in a staff report to the February 2008 meeting of the Audit Committee.

<http://www.toronto.ca/legdocs/mmis/2008/au/reports/2008-02-22-au06-cr.pdf>

The fee for the City's portion of the 2008 external audit has increased by approximately \$160,000 based on the approved extension of the current contract. The fee for the City's portion of the external audit is \$483,766. On the advice of the Deputy City Manager and Chief Financial Officer the Auditor General's budget for audit fees for 2008 was initially provided for at the same amount as in prior years. An estimated amount for the increase was included in the City's non-program account for 2008. The Auditor General's 2008 budget was subsequently adjusted once the extent of the fee increase was determined and approved by Council. However, the estimated amount included in the 2008 non-program account was underestimated by approximately \$43,000.

The Auditor General's 2009 budget for external audit fees is currently set at the same amount as for 2008. The additional \$43,000 required for the 2009 audit fees has been included in the City's 2009 non-program account and will be transferred to the Auditor General's budget after Council's approval of the budget. This process was discussed and agreed with the City Manager.

### **Benefits of an Effective Audit Process**

An effective audit process can result in a significant payback to the City in terms of:

- increased revenues;
- reduced costs;
- improved internal controls;
- operational efficiencies; and
- enhanced protection of City assets.

The costs savings generated by the Auditor General's Office since amalgamation, while difficult to quantify precisely, have been significant and far outweigh the costs to operate the office. Many of the savings generated are not one-time savings as in many cases they represent ongoing annual savings.

In a report to Audit Committee dated January 28, 2008 entitled "Auditor General's Audit Reports - Benefits to the City of Toronto – Annual Update", it was reported to Audit Committee that the actual potential net savings (after accounting for the annual budgets of the Office) for the period 2003 to 2007 were in the range of \$82 million. At the request of the Audit Committee, this report will be updated and tabled with the Committee during the first quarter of 2009.

### **The Impact of the *City of Toronto Act***

The *Act* has had an impact on the Auditor General's ability to audit certain of the City's local boards. Prior to the *Act*, the Auditor General had access to all records at each of the City's local boards and was able to conduct audit work based on his analysis of risk.

The *Act* states, in Section 178 (3) under Powers and Duties of the Auditor General's Office, that "the Auditor General may exercise the powers and shall perform the duties as may be assigned to him or her by city council in respect of the City, its local boards (restricted definition) and such city controlled corporations and grant recipients as city council may specify." Under the *Act*, "local boards (restricted definition)" is defined as a local board other than the Toronto Police Services Board, the Toronto Public Library and the Board of Health. In essence, the Auditor General of the City of Toronto, under the new legislation, has no authority to access records or conduct audit work at those "restricted" local boards.

The Auditor General met with both the City Manager and the City Solicitor to further address this matter. The City Solicitor has advised that Council may extend the mandate of the Auditor General to include the audits of the "restricted" local boards based upon specific requests of these boards. Under the *Act* as it now stands, the Auditor General does not have the mandate to independently determine specific audit work at the "restricted" local boards.

City Council subsequently approved that the Auditor General, at his discretion, may undertake financial (excluding attest) compliance and performance audits of the "restricted" local boards upon request by the boards. This arrangement has worked satisfactorily, particularly, in the case of the Toronto Police Services Board. Since the enactment of the City of Toronto Act a significant amount of work has been conducted at the Toronto Police Service.

It is anticipated that the Province of Ontario will be requested to amend the *Act* to include the "restricted" boards in those entities subject to audit by the Auditor General.

## **The Statutory Accountability Officers - Working Together With the Integrity Commissioner, the Lobbyist Registrar and the Ombudsperson**

Over the past number of years, there has been ongoing communication between the Auditor General and the Integrity Commissioner. Regular meetings were held to discuss issues or concerns and when appropriate, specific complaints were referred to the responsible official. In his final report to the City Council, the former Integrity Commissioner stated that “Within the City, I continued to have an excellent relationship with Jeffrey Griffiths, the Auditor General”. In addition, the Auditor General has also recently had discussions with the current interim Integrity Commissioner and has provided advice in relation to the availability of certain resources.

Meetings have also been held with the Lobbyist Registrar to discuss areas of interest particularly the use by the Lobbyist Registrar of the Case Management Information System developed by the Auditor General’s Office. This system is used to administer complaints received through the fraud and waste hotline. The use of this system will also be discussed with the incoming Ombudsperson.

In relation to the new Ombudsperson, we have had discussions with the City Manager’s Office, particularly, in the context of the potential overlap of responsibilities as it relates to various complaints received by the Auditor General on the Fraud and Waste Hotline. Any complaints received on the Fraud and Waste Hotline which are considered “Ombudsperson related” are currently referred to management by the Auditor General’s Office. This process will continue until the establishment of a new protocol acceptable to all affected parties.

## **The Benchmarking of Audit Costs – Comparisons With Other Municipalities**

The Auditor General’s Office has benchmarked its costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States. The following comparison of costs with other major municipalities for comparable levels of audit services indicates that, as a percentage of total municipal budgets, the audit costs at the City of Toronto are at the lower end of the scale. As it is not possible to obtain most of the budget numbers for 2009, costs in this table relate to the 2008 fiscal year.

While the following comparisons are useful and in fact do represent specific audit costs it is possible that certain of the audit costs in other jurisdictions are understated particularly as there may be other internal audit activities and costs within these jurisdictions of which we are not aware.

**Table 2**

	Municipal Budget (in \$000s)	Audit Costs (in \$000s)	Audit Costs as a % of Municipal Budget
	\$	\$	%
<b>Canadian Jurisdictions</b>			
<b>City of Toronto</b>	<b>8,200,000</b>	<b>7,205</b>	<b>0.09</b>
Montreal	3,971,630	4,600	0.11
Calgary	2,240,000	2,180	0.10
City of Ottawa	2,203,134	1,855	0.08
Edmonton	1,480,894	1,951	0.13
Winnipeg	1,224,538	1,070	0.09
Vancouver	894,485	500	0.06
<b>U.S. Jurisdictions</b>			
Chicago	7,414,692	5,363	0.07
San Francisco	6,079,785	5,444	0.09
Phoenix	3,022,800	2,557	0.08
San Jose	1,750,420	2,835	0.16

The internal audit costs for the City of Toronto in the amount of \$7,205,000 included above is calculated as follows:

Auditor General's Budget	\$4,269,629	
<u>Less:</u>		
External Audit Fees	<u>(440,755)</u>	3,828,874
<u>Add:</u>		
City Internal Audit	1,028,000	
TTC Internal Audit	1,500,000	
Toronto Police Services Internal Audit	<u>848,000</u>	
		<u>3,376,000</u>
		<b><u>\$ 7,204,874</u></b>

The Auditor General is only responsible for the budget of \$3,828,874. Other audit budgets are the responsibility of the City Manager, the Chief General Manager of the Toronto Transit Commission and the Toronto Police Chief.

## Predetermined Audit Costs in Certain Jurisdictions

Of significance in the comparison of audit costs between municipalities is current legislation in Quebec. The Quebec Cities and Towns Act in Section 107.5 requires that, “The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor’s duties.” The amount legislated for audit services in municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the equivalent percentage of 0.11 per cent was applied to the City of Toronto, the City’s total audit budget would be in the range of \$9 million.

The 2008 audit budget at the City was:

Auditor General’s Office	\$3,828,874
Internal Audit Functions	<u>3,376,000</u>
<b>Total City Wide Audit Budget</b>	<b><u>\$7,204,874</u></b>

Using the Quebec model as a guide, it would not be unreasonable to suggest that the audit budget at the City should increase by approximately \$1.8 million. We are not suggesting that such an increase be considered without significant additional deliberation or analysis, nor are we suggesting that these additional resources be exclusively allocated to the Auditor General’s Office. For example, any increase to the audit budget at the City should also consider the needs of the audit function operating out of the City Manager’s Office. In our view and on a preliminary basis we would suggest that the audit functions at the TTC and the Toronto Police Service are adequately resourced.

The above analysis does, however, demonstrate that audit resources at the City are not excessive and likely should be increased to a level commensurate with the size of the City.

## Additional Workload Pressures

An extremely important component of any audit process is the requirement that there be a follow-up of audit recommendations made. There is little benefit to an audit unless recommendations resulting from the audit are implemented. In order to address this issue, we have set up a formal process to follow-up on all previously issued audit reports. The resources devoted to this process have been significant. However, such a process will enable us to ensure that all previously approved recommendations have been implemented.

In addition, the activity relating to the Fraud and Waste Hotline has increased significantly since its inception. It was recognized and acknowledged that during its initial phase, the Hotline could be accommodated with existing resources until the extent of activity was determined. In 2006, with the approval of Council we added one position to deal with the workload created by the Fraud and Waste Hotline. We will continue to monitor the impact of the Fraud and Waste Hotline program on our resources.

## **The Auditor General's Annual Work Plan**

The 2009 annual audit work plan of the Auditor General is being presented to Audit Committee concurrent with this report.

### **Summary**

The budget to operate the Auditor General's Office for 2009 is projected to be \$4,336,074. Included in this amount are audit fees paid to an external accounting firm for the annual statutory audit of the financial statements of the City. The Auditor General has no control over these fixed contract fees that were renewed for the fiscal years ending December 31, 2008 and 2009.

As indicated previously, 96 per cent of the Auditor General's budget request consists of salaries and wages. Reducing the Auditor General's budget to two percent less than the 2008 budgeted amount would require decreasing staff by two persons.