



AUDITOR GENERAL'S REPORT ACTION REQUIRED

The Audit Committee – Roles and Responsibilities

Date:	January 12, 2011
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Audit Committee is a Special Committee of City Council reporting directly to City Council. The roles and responsibilities of the Audit Committee are outlined in the Toronto Municipal Code.

The purpose of this report is to provide additional information on the roles and responsibilities of the Audit Committee.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

Financial Impact

There is no financial impact resulting from the adoption of this report.

DECISION HISTORY

The profile of the roles and responsibilities of Audit Committees in both the public and private sector have been significantly raised as a result of various accounting scandals in the US and Canada. These scandals included Enron, WorldCom and Arthur Anderson in the US, as well as the federal government sponsorship scandal in Canada.

The passing of the Federal Accountability Act in 2006 has also brought more attention to the issue of accountability in government and, in particular, to the audit process including the effectiveness of Audit Committees.

In today's environment, Audit Committees are widely regarded as one of the cornerstones of an organization's oversight process. Audit Committees are considered to have important governance responsibilities related not only to public financial reporting, internal controls and management of financial risks but also to the oversight of an organization's values and ethics.

Leading practices for effective Audit Committees require that the roles and responsibilities of Audit Committees be clearly articulated to its members on an ongoing basis. This report addresses this particular requirement.

ISSUE BACKGROUND

The responsibilities of the Audit Committee are outlined in the Toronto Municipal Code and are as follows:

1. Recommending the appointment of the City's external auditor
2. Recommending the appointment of an external auditor to conduct the annual audit of the Auditor General's Office
3. Considering the annual external audit of the financial statements of the City and its Agencies, Boards, and Commissions
4. Considering the external audit of the Auditor General's Office
5. Considering the Auditor General's reports and audit plan
6. Conducting an annual review of the Auditor General's accomplishments
7. Making recommendations to Council on reports the Audit Committee considers.

COMMENTS

Recommending the Appointment of the City's External Auditor

The appointment of the City's external auditor is required under the provisions of Section 139 of the City of Toronto Act 2006. The City is required to appoint an auditor licensed under the Public Accounting Act 2004. The appointment of the City's external auditor to conduct the annual audit of the City's financial statements is a responsibility that generally takes place once every five years. Contracts for audit services as a result of a competition process have been awarded for a five-year term as provided for under the City of Toronto Act 2006.

The firm of PriceWaterhouseCoopers currently provides audit services to the City including its major Agencies, Boards and Commissions. The firm of Grant Thornton LLP provides audit services to many of the smaller City Boards and Agencies. Both of these firms operate under a five-year contract which expires for the financial year ended

December 31, 2014 for PriceWaterhouseCoopers and December 31, 2012 for Grant Thornton.

Recommending the Appointment of an External Auditor to Conduct the Annual Audit of the Auditor General's Office

The external audit of the Auditor General's Office is provided for in the by-law which established the Auditor General's Office. Essentially, such a process responds to the question, "Who audits the auditor?" The audit of the Auditor General's Office takes place annually by an independent external public accounting firm appointed by Council. Robert Gore & Associates was appointed as a result of a competitive process for a three-year term ended December 31, 2010.

Considering the Annual External Audit of the Financial Statements of the City and its Agencies, Boards and Commissions

An annual audit plan is presented to the Audit Committee by the firm of PriceWaterhouseCoopers. This plan outlines the auditor's responsibilities, general audit approach, identifies areas of audit risk within the City, the timetable for reporting and the scope of work to be conducted. Although it is the responsibility of the auditors to determine the scope of their work, the Audit Committee should have a reasonable understanding of the nature and extent of the work performed.

Auditors are engaged to express an opinion on the financial statements and their opinion is based on their evaluation as to whether or not financial statements are "fairly presented". In other words, the audit provides reasonable assurance that the financial statements are not materially misstated. In the audit of financial statements, "materiality" means the amounts which are significant enough to influence the decisions of users of the statements. The auditors must establish a range of amounts of misstatement that in their view would be material in the audit of the City and plan the audit to detect such misstatements if they exist.

The results of the annual audit on the City's financial statements, including the Agencies, Boards and Commissions are reported to the Audit Committee by the external auditors. It is important that the Audit Committee understands the difference between the role of management and the role of the auditors. Management is responsible for the maintenance of systems capable of producing accurate financial statements on a timely basis and for the preparation of reliable financial statements. The auditors are responsible for the expression of an independent opinion on those financial statements. The financial statements themselves are the responsibility of management and are presented to the Audit Committee by management.

The Audit Committee should understand and scrutinize the financial statements and question any issues that are unclear and follow up on matters of concern. Municipal financial statements are complex and are significantly different from private sector financial statements. If the Audit Committee is to fulfill its financial statement review

responsibilities effectively, members should be conversant with financial reporting in the municipal sector. For those members who are not comfortable with their current level of expertise, consideration be given to attendance at a management designed training program.

A by-product of the external audit process is generally a management letter prepared by the external auditors on issues identified during the audit. It is the role of the Committee to consider these issues and to ensure that the recommendations contained in the management letter are implemented on a timely basis.

While the Auditor General is involved in the annual financial statement audit and meets with the external auditors on a regular basis, the external auditors are independent from the Auditor General's Office and report to Council through the Audit Committee.

Considering the External Audit of the Auditor General's Office

The external accounting firm responsible for the audit of the Auditor General's Office provides a written report to the Audit Committee outlining the results of the audit. It is the responsibility of the Committee to review this report and make appropriate recommendations if required.

This process is independent from the Auditor General's Office. The external auditor reports to Council through the Audit Committee.

Considering the Auditor General's Reports and Audit Plan

The Auditor General prepares an annual work plan based on an evaluation of risk. This work plan is provided to the Audit Committee for information and input. Areas of concern identified by the Audit Committee and management are considered during the development of the work plan and may be included in the plan depending on priorities. This work plan is intended to be flexible and may be amended depending on emerging priority issues. City Council, in accordance with the Auditor General's by-law, cannot delete any projects from the work plan but may add to it by a two-thirds vote of Council.

Audit reports completed by the Auditor General are forwarded to the Audit Committee along with a series of recommendations. At the same time, a management response to each of the recommendations is forwarded to the Audit Committee. Audit recommendations are considered by the Committee and, once approved, are required to be implemented by management. The Audit Committee also receives annual follow-up reports from the Auditor General reporting on the status of all outstanding recommendations.

The Audit Committee is also provided with an annual report outlining the results of the activities of the fraud and waste hotline. During the year, any issues of concern identified through the hotline are reported to the Chair of the Audit Committee and, if significant, are reported to the Audit Committee.

Finally, the Auditor General submits his annual budget request to the Audit Committee for review and approval. Such a request will not have received any scrutiny by management due to the independence of the Auditor General's Office. Once approved by the Audit Committee, the Auditor General's Office budget is submitted to the City's Budget Committee for consideration.

Conducting an Annual Review of the Auditor General's Accomplishments

It is the responsibility of the Audit Committee to prepare an evaluation of the performance of the Auditor General on an annual basis.

Making Recommendations on Reports the Audit Committee Considers

The reports of the Auditor General generally contain a significant number of recommendations. In most cases, these recommendations are approved by the Audit Committee and forwarded directly to Council. Additional recommendations are occasionally formulated by Committee for submission to City Council.

CONTACT

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SIGNATURE

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