

**Auditor General's Office  
2013 Budget**

**September 13, 2012**



**Auditor General's Office**

---

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

---

## TABLE OF CONTENTS

---

|  |           |
|--|-----------|
| <b>THE AUDIT FRAMEWORK AT THE CITY OF TORONTO</b> .....  | 1         |
| The Auditor General’s Office .....   | 1         |
| The Internal Audit Division – City Manager’s Office .....  | 2         |
| External Financial Auditor.....  | 2         |
| Internal Audit Functions at the Toronto Transit Commission and the Toronto<br>Police Service.....  | 3         |
| Internal Audit Function at the Toronto Community Housing Corporation .....   | 3         |
| <b>THE AUDITOR GENERAL’S OFFICE</b> .....  | 3         |
| Responsibilities of the Auditor General.....   | 4         |
| Professional Audit Standards .....   | 5         |
| Independent Quality Assurance Review of the Auditor General’s Office.....  | 6         |
| Annual Compliance Audit .....  | 6         |
| Staff Training .....   | 7         |
| <b>THE AUDITOR GENERAL’S OFFICE – 2013 BUDGET REQUEST</b> .....  | 8         |
| 2013 Budget Request .....  | 8         |
| Financial Benefits Identified by the Office Are Significantly in Excess of its<br>Budget .....   | 10        |
| The Benchmarking of Audit Costs – Comparisons With Other Municipalities .....  | 11        |
| Predetermined Audit Costs in Certain Jurisdictions .....   | 13        |
| Additional Workload Pressures .....  | 14        |
| Benefits of an Effective Audit Process .....   | 15        |
| The Impact of the <i>City of Toronto Act</i> .....   | 17        |
| The Auditor General’s Annual Audit Work Plan .....   | 18        |
| Conclusion .....   | 19        |
| <b>ATTACHMENTS</b>   |           |
| Auditor General’s Office – Organizational Chart and Workforce,<br>as at December 31, 2012 .....  | Exhibit 1 |
| Association of Local Government Auditors – External Quality Control<br>Review of the City of Toronto Auditor General’s Office .....  | Exhibit 2 |
| Hilborn Ellis Grant LLP Chartered Accountants – Auditor General’s Office of the<br>City of Toronto Report on the Results of Applying Specified Auditing Procedures to<br>Financial Information Other Than Financial Statements for the Year Ended<br>December 31, 2011 ..... | Exhibit 3 |

---

## THE AUDIT FRAMEWORK AT THE CITY OF TORONTO

---

***City Council approved an independent Auditor General's Office in 2002***

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".

***Audit framework established three levels of audit***

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.

***Auditor General's Office***

(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.

***Internal Audit Division***

(2) A separate Internal Audit Division reporting to the City Manager was established to provide assurance and management consulting advice for the City's Executive Management Team.

***External Financial Auditor***

(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 and Corporations and provide an opinion on the fairness of the information presented in these financial statements.

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

***City of Toronto Act and the Auditor General***

Chapter 3 of the Municipal Code sets out duties and responsibilities of the City's Accountability Officers. As indicated above, the *City of Toronto Act, 2006* 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**

### ***Internal audit function***

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 consulting services designed to improve the administration of municipal operations and promotes compliance with City policies and procedures.

## **External Financial Auditor**

### ***Annual audit of City’s financial statements***

Under Section 139 of the *Act*, the City is required to appoint an external auditor licensed under the Public Accounting Act 2004, who is responsible for annually auditing the accounts and transactions of the City and its Agencies and Corporations 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.

### ***Auditor General oversees external audit contract***

PricewaterhouseCoopers, an external public accounting firm, is responsible for the annual statutory audit of the City’s financial statements under a five-year term contract starting January 1, 2010. 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.

### ***Other financial statement 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 Fund and the Clean Air Partnership). In May 2008, City Council approved a five year contract with Grant Thornton LLP to perform the financial statement audits for these entities. A request for proposal has recently been completed to engage auditors for these entities for the years 2013 to 2017 inclusive.

## **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 the Chief Executive Officer and Chief of Police respectively.

## **Internal Audit Function at the Toronto Community Housing Corporation**

An independent internal audit function has recently been established at the Toronto Community Housing Corporation. The function reports to the Corporate Affairs and Audit Committee.

---

## **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***

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**

### ***Auditor General's independence, authority and reporting***

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***

Specific responsibilities of the Auditor General include:

1. Conduct audit projects identified by the Auditor General through the Auditor General's risk assessment process. Such projects are included in the Auditor General's annual work plan.
2. Conduct forensic investigations including those involving suspected fraudulent activities.
3. Conduct special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council.
4. Manage the Fraud and Waste Hotline Program as well as the referral of certain concerns and issues to divisional management.
5. Oversee the work and the contract of the external auditors performing annual financial statement audits.
6. The follow up of recommendations contained in previous audit reports.

***Coordination and consultation with other audit functions***

Audit work at the City requires coordination with the City Manager's Internal Audit Division, as well as audit groups at the Toronto Transit Commission and the Toronto Police Service. The Auditor General has also consulted with the newly established audit function at the Toronto Community Housing Corporation.

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 regularly with both the external auditor PricewaterhouseCoopers and the City's other Accountability Officers to discuss any issues of mutual concern.

Finally, the Auditor General meets with the City Manager periodically to discuss a wide range of issues, including the annual work plan, upcoming audit reports, internal audit work and issues of concern.

## **Professional Audit Standards**

***Audits conducted in compliance with Government Auditing 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.

***Staff bound by professional standards and ethics***

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**

### ***Government Auditing Standards require an independent review***

A 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.

### ***Auditor General's third quality assurance review***

The Auditor General's Office underwent its third quality assurance review during August 2012. No other municipal audit office in Canada has undergone such a process. Two reports were issued by representatives from the Association of Local Government Auditors (ALGA), an independent professional body which conducts a significant number of quality assurance reviews throughout the US. The reports issued by ALGA are attached to this report as Exhibit 2.

## **Annual Compliance Audit**

### ***Auditor General in compliance with all appropriate City policies***

The Auditor General's Office undergoes an annual compliance audit by a separate and independent external auditor, appointed by and reporting to City Council. The annual compliance audit provides Council assurance that the Auditor General's Office is carrying out its operations within delegated authorities and in compliance with applicable City bylaws and policies. The annual compliance report for the year ended December 31, 2011 was presented to Audit Committee on July 3, 2012. The report issued by Hillborn Ellis Grant LLP the independent external auditor is attached to this report as Exhibit 3.



## **Staff Training**

### ***Auditor General's commitment to staff training***

The Auditor General's Office is committed to ensuring that staff maintain professional proficiency through continuing professional education (CPE) in accordance with 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. In the context of budget restrictions this requirement is becoming increasingly difficult.

### ***Auditor General's staff training program***

The Auditor General's Office establishes a training program each year to assist staff in meeting these requirements. An internal Training Committee oversees the training program of the Office. Staff are required to 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 management.

The Office maintains a record of each staff member's training in accordance with Government Auditing Standards.

---

## THE AUDITOR GENERAL'S OFFICE – 2013 BUDGET REQUEST

---

### 2013 Budget Request

Details relating to the 2013 budget request for the Auditor General's Office are as follows:

|                                  | <b>2013<br/>Budget<br/>Request<br/>(\$000s)</b> | <b>2012<br/>Approved<br/>Budget<br/>(\$000s)</b> | <b>2012<br/>Projected<br/>Actual<br/>(\$000s)</b> |
|----------------------------------|---|--|---|
| Salaries                         | 3,285.6   | 3,273.6  | 3,075.5   |
| Employee Benefits                | 863.5   | 875.5  | 827.5   |
| Gapping                          | (335.0)   | (335.0)  | (335.0)   |
| Services, Materials and Supplies | 108.9   | 106.8  | 61.8  |
| Interdepartmental Charges        | 22.3  | 22.3   | 22.0  |
| <b>Sub Total</b>                 | <b>3,945.3</b>                                  | <b>3,943.2</b>                                   | <b>3,651.8</b>                                    |
| External Audit Fees              | 349.9   | 328.2  | 328.2   |
| <b>Total</b>                     | <b>\$4,295.2</b>                                | <b>\$4,271.4</b>                                 | <b>\$3,980.0</b>                                  |

#### *Budget request*

The amount of \$4,295.2 is the Auditor General's budget request for 2013. This amount includes \$349.9 relating to external audit fees. The Auditor General has no control over the external audit fees as they are based on a separate contractual agreement with the City's external auditors, PricewaterhouseCoopers. For the 2013 external financial audit, fees are based on the contract fee and increased from \$328.2 in 2012 to \$349.9, an increase of 6.6 per cent.

#### *0.6% increase from 2012 to 2013 budget*

The budget request of the Auditor General for 2012 has increased by \$23.8 from the 2012 level. The increase in the Auditor General's budget from 2012 to 2013 is 0.6 per cent. This includes \$21.8 related to the external audit fee increase which is beyond the Auditor General's control and \$2.0 related to economic factors.

***0.1% increase from 2012 to 2013 budget excluding external audit fee increase***

The Auditor General's budget request increase for 2012 excluding the external audit fee increase is \$2.0. This increase in the Auditor General's budget from 2012 to 2013 is 0.1 per cent.

***97% of budget is salaries and benefits***

The majority of the Auditor General's 2013 budget request consists of salaries and benefits. If the amount of \$349.9 for external audit fees is excluded from the budget of the Auditor General's Office, the percentage of salaries and benefits to the total budget is just under 97 per cent.

***Continued professional staff vacancies gapped since 2011***

The Auditor General's staff complement consists of 26 professional staff and three administrative staff. Two professional positions are currently vacant and have been gapped. Two additional professional positions are vacant as of June 1, 2012 and September 1, 2012 due to the retirement of two incumbents.

The proposed 2013 budget reflects continued gapping for two professional staff vacancies.

***Management of the City's Fraud and Waste Hotline***

In addition to the Auditor General's statutory requirements, since 2002, the Auditor General has operated the City's Fraud and Waste Hotline. Since the inception of the Hotline the number of complaints continues to increase. In 2011 the volume of complaints increased to 822. It should be noted that many complaints contain more than one allegation; however, we do not track precisely the number of allegations received per complaint. Consequently, we estimate the number of complaints to be in the range of 2,000.

***Multiple allegation complaints***

It is becoming increasingly more difficult to act on each of these complaints on a timely basis.

## **Financial Benefits Identified By the Office Are Significantly in Excess of its Budget**

*Cost savings/revenue increases in excess of the annual budget*

In terms of value for money the Auditor General's Office over the years has clearly demonstrated that the cost savings/revenue increases identified through its audit work are significantly in excess of its annual budget.

*Reports issued since 2007*

Appendix 2 attached to this report lists the audit reports issued by this office since 2007. Continued gapping to the budget of the Auditor General's Office will have a future impact on the number of reports produced by the Office and will increase the backlog of audit projects.

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

The Auditor General’s Office has benchmarked 2012 City audit costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States.

**Table 2: Comparison of Audit Costs**

|                               | <b>2012<br/>Municipal<br/>Budget<br/>(in \$000s)</b> | <b>2012<br/>Audit Costs<br/>(in \$000s)</b> | <b>Audit Costs<br/>as a % of<br/>Municipal<br/>Budget</b> |
|-------------------------------|--|---|---|
|                               | \$   | \$  | %   |
| <b>Canadian Jurisdictions</b> |  |   |   |
| Vancouver                     | 1,100,000  | 657   | 0.06  |
| Ottawa                        | 2,738,000  | 1,616                                       | 0.06  |
| <b>Toronto</b>                | <b>10,200,000</b>                                    | <b>7,004</b>                                | <b>0.07</b>   |
| Calgary                       | 2,800,000  | 1,928                                       | 0.07  |
| Halifax                       | 788,000  | 793   | 0.10  |
| Edmonton                      | 1,880,000  | 2,093                                       | 0.11  |
| Montreal                      | 4,361,500  | 5,023                                       | 0.12  |
| Quebec City                   | 1,258,000  | 1,500                                       | 0.12  |
| <b>U.S. Jurisdictions</b>     |  |   |   |
| Chicago                       | 8,205,700  | 5,854                                       | 0.07  |
| Philadelphia                  | 7,338,388  | 7,556                                       | 0.10  |
| Detroit                       | 3,108,301  | 3,554                                       | 0.11  |
| Phoenix                       | 3,474,000  | 4,140                                       | 0.12  |
| San Jose                      | 2,317,725  | 2,969                                       | 0.13  |
| San Francisco                 | 6,828,705  | 12,126                                      | 0.18  |

***Toronto audit costs***

In determining the total audit costs of the City, a certain portion of costs of the Internal Audit Division, and the audit functions at the TTC and the Toronto Police Service have been added to the costs of the Auditor General's Office as outlined in the following table:

|                          | <b>2012 Audit Costs<br/>(\$000s)</b> |
|--------------------------|--------------------------------------|
| Auditor General's Office | 4,271.4                              |
| Internal Audit           | 434.1                                |
| TTC                      | 1,092.9                              |
| Toronto Police Service   | 1,206.0                              |
| <b>Total</b>             | <b>\$7,004.4</b>                     |

Internal Audit costs exclude costs recovered through Interdepartmental Recoveries for services provided directly to certain Divisions. The Toronto Police Service costs exclude estimated costs related to certain mandated program reviews.

The benchmarking of audit costs is not a precise exercise due to the difficulties in obtaining comparative, accurate and complete information. We have endeavored to ensure that comparative information has been provided.

***Difficult to make exact comparisons***

It is nevertheless difficult to make exact comparisons with other municipalities due to a number of factors such as:

- The audit costs of municipalities in Table 2 include an Auditor General function only. There may be other internal audit entities in these organizations which have not been accounted for. We are aware that Quebec City for example, has a separate internal audit function which is not included in the audit costs of Quebec City.
- The City of Toronto Auditor General's Office Budget includes external audit fees, however, a number of the other municipalities audit amounts in Table 2 do not include external audit fees. In a number of cases, this information has been difficult to obtain.
- The City of Toronto operates a Fraud and Waste Hotline, whereas a number of other municipalities do not (e.g., Quebec City, Montreal and Vancouver).

***Audit costs are low compared to most major municipalities***

In spite of these limitations, Table 2 demonstrates that, compared with other major North American cities, the budget of the Auditor General's Office is at the low end of the scale.

***Recognize the financial constraints***

In submitting a budget request we recognize the financial constraints under which the City operates and over the past number of years our budget requests have reflected this reality. Nevertheless, it is important to recognize that the audit work conducted by this Office is not at a level commensurate with the size and complexity of the City. In order to address audit projects which have been deferred as well as to accommodate the increased volume of complaints received by the Fraud and Waste Hotline, it is anticipated that the positions currently gapped should be filled and additional resources in the range of \$500,000 provided.

Our 2012 audit work plan is based on the resources available. There are a significant number of audits which continue to be deferred because of limited resources. In addition, the Auditor General is now at the stage where audits previously conducted should be the focus of a second review. Resources are not available to allow for this.

## **Predetermined Audit Costs in Certain Jurisdictions**

***Quebec legislation mandates allocation of audit fees as a percentage of the total City budget***

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 \$11 million.

***Quebec model  
would increase  
City audit budget  
by over \$4 million***

Using the Quebec model as a guide, the audit budget at the City should increase by over \$4 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.

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**

***Annual follow-up  
of audit  
recommendations***

An extremely important component of any audit process is to follow-up on 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 established an annual process to follow-up on all previously issued audit reports. The resources devoted to this process have been significant. However, such a process enables us to ensure that all previously approved recommendations have been implemented.

***Increase in Fraud  
and Waste Hotline  
activity***

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.



The activity of the Fraud and Waste Hotline Program since its inception has been as follows:

**Fraud and Waste Hotline Program  
Number of Complaints by Year**

*Fraud and Waste Hotline Program complaint volume since its inception*

| Year | Number of Individual Complaints |
|------|---------------------------------|
| 2002 | 157                             |
| 2003 | 238                             |
| 2004 | 347                             |
| 2005 | 577                             |
| 2006 | 503                             |
| 2007 | 523                             |
| 2008 | 619                             |
| 2009 | 677                             |
| 2010 | 570                             |
| 2011 | 822                             |

Toronto’s Hotline Program receives a significantly greater volume of complaints than other Canadian municipalities. For example, in 2011 Ottawa received 182 complaints, Calgary 68, and Edmonton 50.

It is becoming increasingly difficult to manage the high volume of complaints particularly while at the same time fulfilling its audit mandate. By necessity many complaints are being forwarded to management for review.

**Benefits of an Effective Audit Process**

*An effective audit process results in significant payback to the City*

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
- 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. Most of the savings generated represent on-going annual savings.

***Cost savings on an annual or one time basis***

Costs savings and/or revenue increases as a result of audit reports occur on an annual basis or on a one time basis. While the listing of reports on Appendix 2 specifically outlines reports issued from 2007 to 2012, the City continues to benefit from annual cost savings identified in reports from as far back as 2000.

***Cost savings over last five years are in the range of \$194 million***

In a report to the Audit Committee dated January 25, 2012 entitled "Demonstrating the Value of the Auditor General's Office", it was reported to Audit Committee that the actual potential net savings for the period 2007 to 2011 were in the range of \$194 million. The next annual report, updated for 2012 audits, will be tabled with the Committee at its first meeting in 2013.

***\$10 dollar return for every \$1 invested***

In simple terms for every \$1 invested in the Auditor General's Office the return on this investment has been \$10.

***Significant cost savings and other benefits***

While certain audits have resulted in cost savings, other benefits related to the avoidance of future costs, improvements to internal controls as well as the protection of City assets have also occurred.

***Recent examples of annual cost savings***

More recent examples of annual cost savings identified as a result of various audits are listed on Appendix 3:

One-time cost savings are in addition to annual savings.

***One time cost savings***

As indicated in the recent report entitled "Demonstrating the Value of the Auditor General's Office", one-time cost savings have been as follows:

| <b>Year</b> | <b>One Time Cost Savings</b> |
|-------------|------------------------------|
| 2006        | \$410,000                    |
| 2007        | \$118,000                    |
| 2008        | \$715,000                    |
| 2009        | \$338,000                    |
| 2010        | \$443,000                    |
| 2011        | \$798,000                    |

***Other reports issued and the benefits***

Other reports issued by the Auditor General have produced benefits which in many cases are difficult to quantify. These include:

- The Review of the Investigation of Sexual Assaults – A Decade Later
- Review of the SAP Competency Centre
- City Purchasing Card Program
- Managing the Recruitment of Non-Union Employees
- Review of Disposal of Surplus IT Equipment
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals

Each one of these reviews has significant benefits which are not necessarily financially related.

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

The *City of Toronto 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.

***City of Toronto  
Act limits Auditor  
General’s  
authority to audit  
“restricted” local  
boards***

The *Act* states, in Section 178 (3) under Powers and Duties of the Auditor General 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.

***Auditor General  
working with  
“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 audits of the “restricted” local boards based upon specific requests of these 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 *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 Auditor General’s Annual Audit Work Plan**

The 2012 Audit Work Plan of the Auditor General was considered at Audit Committee on November 23, 2011 and was adopted at City Council on February 7, 2012. It is available at: <http://www.toronto.ca/audit/2011/2012workplan-nov4.pdf>

The 2013 Audit Work Plan will be tabled at the October 2012 Audit Committee meeting.

## **Conclusion**

The budget to operate the Auditor General's Office for 2013 is projected to be \$4,295,200. 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.

As indicated previously, 97 per cent of the Auditor General's budget request consists of salaries and benefits.

***\$10 dollar return  
for every \$1  
invested***

Measured by all available yard sticks, whether it be legislative requirements in other jurisdictions or comparisons with other municipalities, the budget of the Auditor General's Office is inadequate in relation to the audit work required.

Based on the cost savings identified in this report, which are examples only, the return on the investment of funds in the Auditor General's Office is significant. The recent report entitled "Demonstrating the Value of the Auditor General's Office" indicates that for each \$1 invested in audit costs the return in relation to cost savings is over \$10.

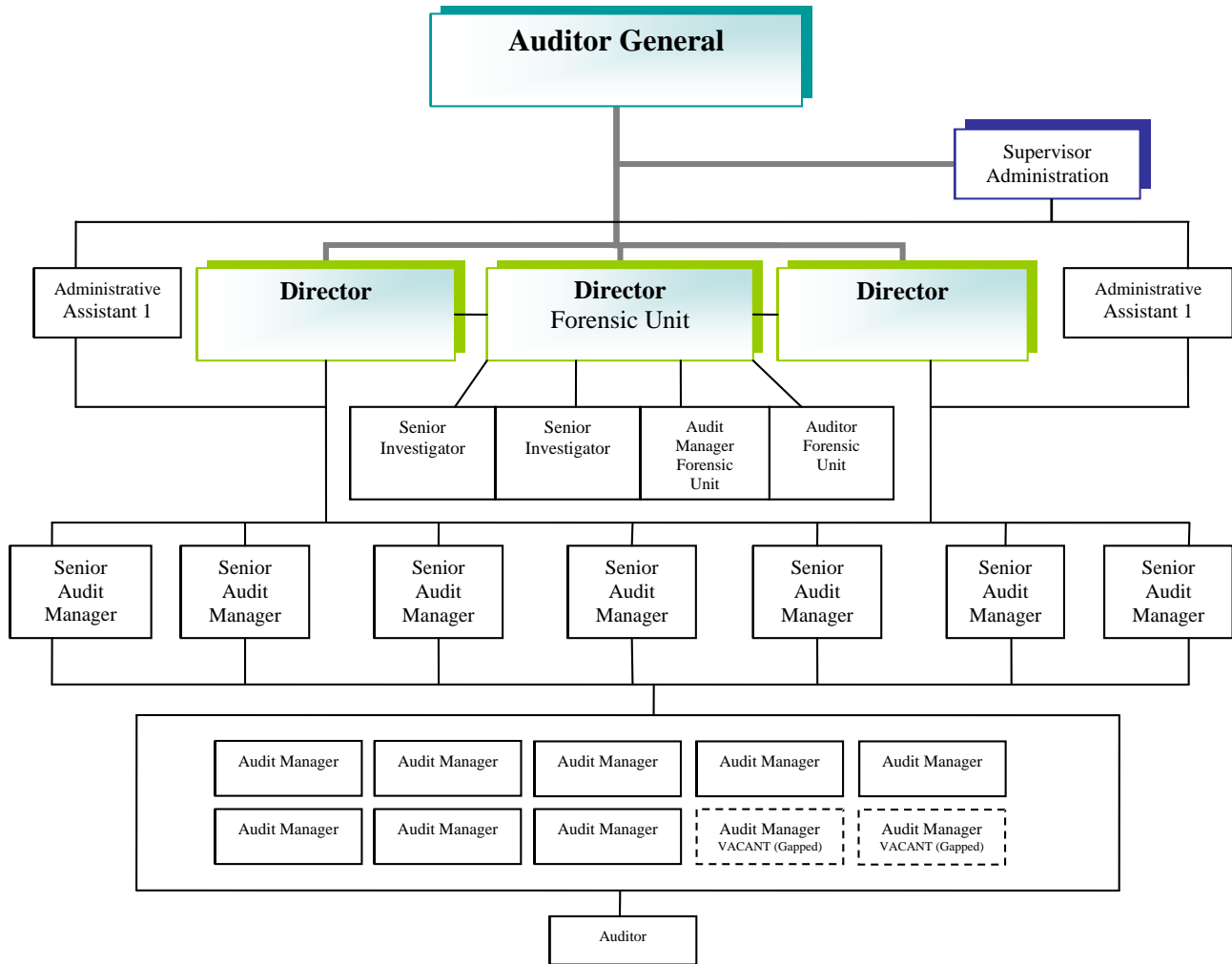
***More efficiency  
audits can drive  
more savings***

Finally, in validation of the views of the Auditor General the previous Mayor's Fiscal Review Panel in its report entitled "Blueprint for Fiscal Stability and Economic Prosperity- a Call to Action", dated February 2008 independently stated that "the City should increase the budget for the Auditor General's Office to enable it to complete more efficiency audits and drive more savings".

This recommendation has not been acted upon.

**THE AUDITOR GENERAL'S OFFICE –  
ORGANIZATIONAL CHART AND WORKFORCE**

**As at December 31, 2012**





# Association of Local Government Auditors

August 24, 2012

**OFFICERS**

***President***

Drummond Kahn  
Audit Services Director  
Portland, OR

***President Elect***

Bill Greene  
Acting City Auditor  
Phoenix, AZ

***Secretary***

Kymer Waltmunson  
Principal Management Auditor  
King County, WA

***Treasurer***

Corrie Stokes  
Deputy City Auditor  
Austin, TX

***Past President***

Ross Tate  
Maricopa County Auditor  
Phoenix, AZ

**BOARD MEMBERS  
AT LARGE**

Ruthe Holden  
Chief Auditor  
LA Metropolitan Transportation  
Authority, CA

Denny Nester  
City Auditor  
Colorado Springs, CO

Tina Adams  
Senior Auditor  
Charlotte, NC

Pamela Weipert  
Manager  
Oakland County, MI

**MEMBER SERVICES**

449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503  
Phone: (859) 276-0686  
Fax: (859) 278-0507

[www.governmentauditors.org](http://www.governmentauditors.org)  
[memberservices@governmentauditors.org](mailto:memberservices@governmentauditors.org)

Mr. Jeffrey Griffiths  
Auditor General  
City of Toronto  
9th floor, Metro Hall  
55 John St.  
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2009 through December 31, 2011. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards*. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of Toronto Auditor General's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during January 1, 2009 through December 31, 2011.

We have prepared a separate letter offering one observation and suggestion to further strengthen your internal quality control system.

Sincerely

Beth Breier  
City of Tallahassee, FL

Bill Greene  
City of Phoenix, AZ



# Association of Local Government Auditors

## OFFICERS

*President*  
Drummond Kahn  
Audit Services Director  
Portland, OR

*President Elect*  
Bill Greene  
Acting City Auditor  
Phoenix, AZ

*Secretary*  
Kymber Waltmunson  
Principal Management Auditor  
King County, WA

*Treasurer*  
Corrie Stokes  
Deputy City Auditor  
Austin, TX

*Past President*  
Ross Tate  
Maricopa County Auditor  
Phoenix, AZ

## BOARD MEMBERS AT LARGE

Ruthe Holden  
Chief Auditor  
LA Metropolitan Transportation  
Authority, CA

Denny Nester  
City Auditor  
Colorado Springs, CO

Tina Adams  
Senior Auditor  
Charlotte, NC

Pamela Weipert  
Manager  
Oakland County, MI

## MEMBER SERVICES

449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503  
Phone: (859) 276-0686  
Fax: (859) 278-0507

[www.governmentauditors.org](http://www.governmentauditors.org)  
[memberservices@governmentauditors.org](mailto:memberservices@governmentauditors.org)

August 24, 2012

Mr. Jeffrey Griffiths  
Auditor General  
City of Toronto  
9th floor, Metro Hall  
55 John St.  
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

We have completed a peer review of the City of Toronto Auditor General's Office (Office) for the period January 1, 2009 through December 31, 2011, and issued our report thereon dated August 24, 2012. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your Office excels:

- The extensive Risk Assessment process the Office conducts to develop the five-year risk assessment and annual audit plans. The process includes: detailed analyses of the major City divisions, Agencies, Commissions, and Corporations and an extensive use of criteria and overall consideration of past audit work.
- The audit staff has a strong set of certifications and qualifications and tackles complex audit topics.
- The organization of audit workpapers and well-developed quality control process, including checklists and supervisory review at various steps help ensure audit standards are followed and audit quality is achieved.
- The Issue Development Worksheet is a good tool to develop the report issues and be more efficient in the report writing phase.
- Audit planning steps culminating with the issuance of a Terms of Reference letter is an effective way to communicate the results of the preliminary assessment, the audit objectives, scope, and methodology to management staff and assist in the development of the fieldwork audit program.
- The administrative staff were very efficient and gracious, and we observed how their organizational skills benefited your audit work.



We offer the following one observation and suggestion to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Government Auditing Standards 1.25 states that performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, and facilitate decision making. Generally, when an audit organization reports information without following Generally Accepted Government Auditing Standards, the work product is categorized as nonaudit service instead of a performance audit.

While reviewing the various engagements and work performed in your Office, we noted 1 out of 50 reports was classified as administrative in nature when it should probably have been classified as an audit or nonaudit. This written report included analytics and audit procedures and was provided to management and Council to assist in reducing costs and facilitating decision making and was posted to the Office website for public use.

We suggest that for similar future projects the Office evaluate the classification of this work (i.e. either performance audit or nonaudit services) and apply the appropriate standards.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely

Beth Breier  
City of Tallahassee, FL

Bill Greene  
City of Phoenix, AZ



Auditor General's Office

Jeff Griffiths, C.A., C.F.E.  
Auditor General

**Metro Hall**  
55 John St. 9<sup>th</sup> Floor  
Toronto, Ontario M5V 3C6

Tel: 416-392-8461  
Fax: 416-392-3754

August 24, 2012

Beth Breier  
Audit Manager  
300 South Adams Street, Box A-22  
Tallahassee, FL 32301

Dear Ms. Breier,

Thank you for participating in the External Quality Control Review of the City of Toronto Auditor General's Office. Your review is a valuable part of our continuing efforts to improve the quality of audits, and we are pleased you found that audits performed by the Toronto Auditor General's Office comply with *Government Auditing Standards*.

The Auditor General's Office is committed to continuously improving the quality of our audit work. We appreciate your thoughtful comments regarding the areas where you found our Office excels including your acknowledgement of the Auditor General's Risk Assessment Process, quality of professional and administrative staff and audit working papers among other elements of the audit process.

We appreciate your observation related to the one report we classified as administrative and will consider the classification and handling of audit versus non-audit services and reports in the future.

Our entire office found the peer review to be a valuable and constructive process. We appreciate the professionalism with which you carried out your responsibilities as peer reviewers, as well as the insights gained from your own organizations.

I would like to extend my personal thanks to you and Bill Greene for taking the time to review our operations, and for your participation in the ALGA peer review program.

Sincerely,

Jeff Griffiths, CA, CFE  
Auditor General  
Toronto, ON



**Hilborn Ellis Grant LLP**  
**Chartered Accountants**

**Exhibit 3**

April 25, 2012

PRIVATE & CONFIDENTIAL

Ms. Frances Pritchard  
c/o Toronto City Council -- Audit Committee  
City Clerks' Office  
10th floor, West Tower, City Hall  
100 Queen Street West  
Toronto, ON M5H 2N2

Re: Auditor General's Office of the City of Toronto  
Report on the Results of Applying Specified Auditing Procedures to  
Financial Information Other Than Financial Statements for the Year  
Ended December 31, 2011

To the Audit Committee of the City of Toronto:

This letter has been prepared at the request of Toronto City Council to obtain assurance that expenditures incurred by the Auditor General's Office of the City of Toronto (AGO) are in compliance with the applicable policies and procedures, including appropriate exercise of delegated authorities as set by the City of Toronto.

We have performed the auditing procedures as described below. This agreed-upon procedures engagement was performed in accordance with standards published by The Canadian Institute of Chartered Accountants. The sufficiency of these policies, procedures and delegated authorities is solely the responsibility of the City of Toronto. Consequently, we make no representation regarding the sufficiency of the City of Toronto policies, procedures and delegated authorities described below.

For the purpose of this letter, the financial information to which the auditing procedures were applied was included within the City of Toronto SAP report, "Detailed Expense Report for the Year 2011" for the AGO. This report is essentially a General Ledger detailing the transactions that have been posted under the cost elements which in turn comprise the scope of the transactions subject to audit. The report was provided directly to us from by staff of the AGO.

To clarify, the Quotation Request identified the following Cost Elements to be tested:

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| 1025 Permanent - Overtime SAP       | 3030 M&E Office                       |
| 1050 Permanent - Vacation Pay       | 3032 M&E Photographic                 |
| 2010 Stationary and Office Supplies | 3050 M&E Kitchen                      |
| 2020 Books and Magazines            | 3070 M & E - Info Process             |
| 2040 Photo Fax & Print Supplies     | 3310 Furnishings                      |
| 2080 Photo & Video Supplies         | 3410 Computers -hardware              |
| 2090 Graphic Design Supplies        | 3420 Computers - Software             |
| 2099 Other Office Material          | 4010 Prof Srv - Legal                 |
| 2260 Gasoline                       | 4038 Prof & Tech IT                   |
| 2570 Janitorial Supplies            | 4078 Cons Svs Tech                    |
| 2610 Kitchen Supplies               | 4079 Cons Svs IT                      |
| 2650 Comp & Printer Supplies        | 4082 Photo/Video Systems              |
| 2660 Footware                       | 4089 Cons Svs Mgmt/R&D                |
| 2741 Food Cost                      | 4091 Cons Svs Ext Lawyers             |
| 2790 Presentation Items             | 4093 Cons Svs Creative Communications |
| 2999 Misc Materials                 | 4118 Tickets                          |
| 3020 M&E Communications             | 4199 Other Prof/Tech Serv             |



April 25, 2012

|  |  |
|--|--|
| 4205 Bus Trav – KM                           | 4755 Meal Allow (Non-Travel)             |
| 4210 Bus Trav - Accom                        | 4760 Membership Fees                     |
| 4215 Bus Trav - Air Trans                    | 4770 Parking Expenses (Intown)           |
| 4220 Bus Trav - Gr Trans                     | 4775 Metrage - OP (Intown)               |
| 4225 Bus Trav - Pub Trans                    | 4805 Postage                             |
| 4230 Bus Trav - Other Exp                    | 4810 Telephone                           |
| 4251 Conf/Semin - KM                         | 4811 Cellular Telephones                 |
| 4252 Conf/Semin - Accom                      | 4812 Long Distance Phone Calls           |
| 4253 Conf/Semin - Air/Rail                   | 4815 Courier                             |
| 4254 Conf/Semin - Grd Trans                  | 4820 Business Meeting Expenses           |
| 4255 Conf/Semin - Other Exp                  | 4822 Receptions & PR                     |
| 4256 Conf/Semin - Regist Fee                 | 4825 Print & Rep - 3rd party             |
| 4310 Train/Dev - External                    | 4995 Other Expenses                      |
| 4340 Tuition Fees                            | 4999 Miscellaneous                       |
| 4414 Advertising & Promotion                 | 6031 Contribution Insurance Reserve Fund |
| 4416 Transfer, Haul & Storage                | 7025 IDC - Postage & Courier             |
| 4465 Contracted Services - Monitoring System | 7030 IDC - Printing & Rep                |
| 4472 Comp Hardware Main                      | 7035 IDC - Copying                       |
| 4474 Comp Software Main                      | 7090 IDC - Admin Charges                 |
| 4510 Rental of Veh & Equip                   | 7097 IDC - EMS                           |
| 4515 Rental of Office Eq                     | 7130 IDC - User HDWE & OPS               |
| 4555 Pager/Radio Rental                      |  |

We were provided directly from the City Clerk's Office, the Policy Applicability Matrix (Matrix) that linked each Cost Element above with the applicable City of Toronto policies and procedures below:

- Expenses Claim Policies as they relate to Meal Allowance, Business meetings and Professional Memberships and Association Fees
- Conferences, Seminars and Business Travel
- Business Expense Policy
- Vacation
- Kilometrage Reimbursement for use of Personal Vehicle for City business
- Lieu time
- Tuition Assistance Reimbursement
- Blanket Contract Procedures
- Procedure for using Divisional Purchase Orders (DPOs)
- Divisional Purchase Orders (DPOs)
- Long Distance Telephone
- Payment Requisition Procedures
- Petty Cash Policy and Procedures
- Purchasing Card (PCard) Program
- Selection and Hiring of Consulting Services
- Sole Source or Non-Competitive Procurement Procedures

To further clarify, the Quotation Request identified the delegated authorities as follows:

- Chapter 71, Financial Control
- Chapter 195, Purchasing
- Chapter 217, Records, Corporate (City)
- Chapter 257, Signing Authority (spending authority set at the level of a Division Head)



April 25, 2012

In addition, the Quotation Request identified the policy framework for the City's Accountability Officers, codified in the Toronto Municipal Code, Chapter 3, "Accountability Officers", which reinforces both their arms-length relationship to the City and their independent status within the City's governance system. As part of the implementation of Chapter 3, Accountability Officers are required to comply with all applicable City-by laws, policies and procedures while maintaining their balance between accountability and independence.

Copies of the above City of Toronto policies and procedures and web-links to the City of Toronto related delegated authorities were provided by the City Clerk's Office.

We selected a statistical sample of transactions to be tested based on the number of entries in each Cost Element and examined those transactions for compliance with the applicable policies and procedures of the Matrix, including appropriate exercise of delegated authorities with underlying supporting documents for adherence to the policies, procedures and delegated authorities noted above.

As a result of applying the above procedures, we found no exceptions to the adherence to the policies, procedures and delegated authorities as they applied to our test sample.

It should be understood that we make no representations as to the sufficiency for your purposes of the procedures as described in the preceding paragraphs. Further we have addressed ourselves solely to the report, which we received directly from the Auditor General's Office of the City of Toronto and make no representations as to whether any material items were omitted. Our procedures do not constitute an audit of the report and therefore we express no opinion on the report.

This letter is provided solely for the purpose of determining compliance with the Section 3-8B of the City of Toronto's Municipal Code and should not be used for any other purpose.

Any use that a third party makes of this letter, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this letter.

Yours very truly,

I.B. MacKenzie\mam

Hilborn Ellis Grant LLP



April 25, 2012

**Appendix**

In compliance with section 6.3 b. of the Quotation Request, the following are items set forth in Appendix 3 for the year ended December 31, 2011.

**List of Annual Sole Source Purchasing Activity**

The City Clerk's Office provided us a list of Annual Sole Source Purchasing Activity incurred by the Accountability Office noted below. During our engagement we inquired with the Audit Manager of the AGO and the Auditor General, who corroborated this and further noted that one third of these fees will be recoverable by the City Managers IA division.

| <b>Description</b>                          | <b>Vendor name</b> | <b>Amount</b> |
|---|--------------------|---------------|
| • ACL annual license renewal                | ACL                | \$3,836.00*   |
| • ACL annual license renewal HST adjustment | ACL                | \$67.51       |

\* Applied specified auditing procedures

**List of Annual Consulting Services Expenditures**

The City Clerk's Office provided us a list of Annual Consulting Services Expenditures for the AGO as noted below. During our engagement we inquired with the Audit Manager of the AGO and the Auditor General, who corroborated this and further noted that these fees will be reimbursed by the TTC.

| <b>Description</b>  | <b>Vendor name</b> | <b>Amount</b> |
|---|--------------------|---------------|
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$3,761.66*   |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$1,711.69    |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$4,320.37    |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$17,075.76*  |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$1,623.82    |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$200.88      |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$305.77      |
| • Legal services in regards to contract compliance issues pertaining to TTC - Wheel Trans | Davis LLP          | \$45.97       |

\* Applied specified auditing procedures



