



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Auditor General's Office – 2013 Budget

Date:	September 13, 2012
To:	Audit Committee
From:	Jeff Griffiths, Auditor General, Auditor General's Office
Wards:	All
Reference Number:	

SUMMARY

This report provides information relating to the 2013 budget for the Auditor General's Office and a budget for approval by the Audit Committee.

An analysis of the budget request is as follows:

	2013 Budget Request	2012 Approved Budget	Increase	%
Budget	\$4,295,200	\$4,271,400	\$23,800	0.6

The proposed budget contains audit fees payable to PricewaterhouseCoopers in the amount of \$349,900 relating to the external financial audit of the City's Financial Statements. The Auditor General has no control over the external audit fees paid as the amount is pre-determined based on a Council approved contract. For the 2013 external financial audit, fees increased from \$328,200 to \$349,900 an increase of \$21,800. This amount is included in the total Auditor General's budget increase of \$23,800.

In relation to the Budget of the Auditor General's Office, three separate reviews are underway which may have an impact on the Auditor General's 2013 budget. These reviews are as follows:

In April 2009, City Council approved a report entitled "A Policy Framework for Toronto Accountability Officers". One of the recommendations contained in the report directs that:

"City Council authorize the City Manager and Deputy City Manager and Chief Financial Officer, in consultation with the accountability officers, to review and

research best practices respecting setting aside a percentage of the City's budget for Toronto's accountability functions and report back to Executive Committee.

This report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX31.1>

On June 14, 2011 City Council approved a report entitled "Auditor General's Office 2011 Budget" and made the following recommendations:

"City Council request the City Manager to review, and report to the Audit Committee on October 20, 2011, on the operations of each one of the internal audit functions that report to management, and ascertain whether there may be benefits to consolidating those functions, such a review to consider the reporting structure particularly in the context of ensuring that all functions are able to operate independently from management.

City Council request that, during the review, the City Manager review the level of resources for each entity in order to ensure that levels are commensurate with responsibilities and make recommendations for reallocation of staff if appropriate. In consultation with the Auditor General, such a reallocation give consideration to the resource requirements of the Auditor General's Office."

This report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU2.5>

The above reports remain outstanding and as a result at its meeting of February 29, 2012 the Audit Committee reaffirmed its earlier requests as follows:

"City Council authorize the City Manager and the Deputy City Manager and Chief Financial Officer, in consultation with the Accountability Officers, to review and research best practices respecting setting aside a percentage of the City's budget for Toronto's accountability functions and report to Executive Committee.

City Council request the City Manager to review, and report to the Audit Committee on October 25, 2012, on the operations of each one of the internal audit functions that report to management both in City Divisions and the ABCs, and ascertain whether there may be benefits to consolidating those functions, such a review to consider the reporting structure particularly in the context of ensuring that all functions are able to operate independently from management.

City Council request that, during the review, the City Manager review the level of resources for each entity in order to ensure that levels are commensurate with responsibilities and make recommendations for reallocation of staff if appropriate. In consultation with the Auditor General, such a reallocation give consideration to the resource requirements of the Auditor General's Office."

These reports continue to be outstanding.

RECOMENDATION

The Auditor General recommends that:

1. Subject to the results of the current review of the City's audit functions by the City Manager, the Audit Committee approve the attached 2013 budget for the Auditor General's Office and forward it to Budget Committee.

Financial Impact

The 2013 budget for the Auditor General's Office is \$4,295,200 which is \$23,800 more than the 2012 final approved budget of \$4,271,400. While it is possible that the reviews of the City's audit functions being conducted by the City Manager could impact the Auditor General's budget, it is expected that any amendments would be proposed for future budgets.

The proposed budget contains audit fees payable to PricewaterhouseCoopers in the amount of \$349,900 relating to the external financial audit of the City's Financial Statements. The Auditor General has no control over the external audit fees paid as the amount is pre-determined based on a Council approved contract. For the 2013 external financial audit, fees increased from \$328,200 to \$349,900 an increase of \$21,800. This amount is included in the total Auditor General's budget increase of \$23,800.

Without the increase of the PricewaterhouseCoopers fees the budget of the Auditor General's Office would have increased by only \$2,000 (0.1 per cent).

The budget request is as follows:

	2013 Budget Request	2012 Approved Budget	Increase	%
Budget	\$4,295,200	\$4,271,400	\$23,800	0.6

The majority of the Auditor General's 2013 budget request consists of salaries and benefits. If the amount of \$349,900 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 under 97 per cent.

The Auditor General's Office currently has two vacancies which were gapped in 2012 and will continue to be gapped in 2013. Two additional vacancies occurred in 2012 due to the retirement of two incumbents. The remainder of positions are filled.

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. In addition, it may impact the operation of the Fraud and Waste Hotline Program managed by the Auditor General's Office.

ISSUE BACKGROUND

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. *The City of Toronto Act, 2006* subsequently formalized the establishment of the Auditor General. Section 177 of the Act requires that "The City shall appoint an Auditor General".

The Auditor General is responsible for evaluating City programs, activities and functions of Divisions, Agencies and Corporations, and the Offices of the Mayor and Members of Council. The Auditor General also manages the City's Fraud and Waste Hotline Program.

The Auditor General's Office reports directly to Council through the Audit Committee and, as such, is independent from management. As an independent office, the Auditor General submits an annual audit work plan to the Audit Committee for review and an annual budget for review and approval. The Auditor General's budget is forwarded directly to Audit Committee without a detailed review by the City's Financial Planning Division.

Detailed information relating to the 2013 budget is contained in the attached document, entitled "Auditor General's Office – 2013 Budget" (Appendix 1).

COMMENTS

The budget of \$4,295,200 recognizes the financial realities at the City and has been prepared on that basis.

As outlined in Appendix 1 to this report, the current budget of the Auditor General's Office is significantly less than almost all major cities in North America.

In addition, 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.

The above analysis demonstrates that audit resources at the City are not excessive and likely should be increased to a level commensurate with the size of the City. Further comments in relation to this are provided in Appendix 1.

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. An analysis of estimated cost savings is included in Appendix 3.

The Auditor General's Office, as one of its responsibilities, operates the City's Fraud and Waste Hotline Program. The Hotline Program has helped reduce losses and protect City assets. The activities of the Fraud and Waste Hotline Program have shown an increasing trend since its inception in 2002.

The City of Toronto established the Hotline Program to promote an ethical culture and assist with the detection and prevention of wrongdoing involving City resources. However, it is becoming increasingly difficult to respond to issues and concerns on a timely basis due to the number of complaints received.

The recent enactment of a by-law pertaining to whistleblower protection is an important step in ensuring that the Fraud and Waste Hotline is effective. The by-law will serve no purpose if the level of staff available to manage the Hotline Program is inadequate. It is critically important that the hotline is appropriately resourced.

CONCLUSION

While appreciative of the financial constraints at the City, the current staffing under which the Office will be required to operate are inadequate for a City the size of Toronto.

Under all available yard sticks whether it be legislative requirements in other jurisdictions or comparisons with other municipalities the level of staff in the Auditor General's Office in relation to the audit work required is inadequate. 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 dated January 25, 2012 entitled "Demonstrating the Value of the Auditor General's Office" indicates that for each \$1 invested in audit resources, the return in relation to cost savings is over \$10.

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.

CONTACT

Jerry Shaubel, Director, Auditor General's Office

Tel: (416) 392-8462, Fax: (416) 392-3754, E-Mail: JShaubel@toronto.ca

Akrivi Nicolaou, Audit Manager, Auditor General's Office

Tel: (416) 392-0057, Fax: (416) 392-3754, E-Mail: anicola@toronto.ca

SIGNATURE

Jeff Griffiths, Auditor General

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ATTACHMENTS

Appendix 1 – Auditor General's Office – 2013 Budget

Appendix 2 – Auditor General's Office – Audit Reports Issued 2007-2012

Appendix 3 – Annual Cost Savings Identified as a Result of Various Audits

Appendix 4 – Toronto Community Housing Corporation – Estimated Cost Savings

