



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Auditor General's Office – 2016 Operating Budget

Date:	October 7, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides information relating to the 2016 budget for the Auditor General's Office and a budget for approval by the Audit Committee.

The Auditor General's 2016 budget request is \$5,726,900.

RECOMMENDATION

The Auditor General recommends that:

1. The Audit Committee approve the attached 2016 budget for the Auditor General's Office and forward it to Budget Committee.

Financial Impact

The Auditor General's 2016 budget request of \$5,726,900 has increased by \$1,009.6 thousand from the 2015 level. The increase in the Auditor General's budget from 2015 to 2016 is 21.4 per cent.

The majority of the Auditor General's 2016 budget request consists of salaries and benefits. Salaries and benefits comprise just over 92 per cent of the total budget.

An analysis of the budget request (in 000's) is as follows:

	2016 Budget Request (\$000)	2015 Approved Budget (\$000)	Increase	%
Budget	\$5,726.9	\$4,717.3	\$1,009.6	21.4

An analysis of the budget request increase is as follows:

Type of Budget Request	Detail	Increase (\$000)
Enhancement to audit function	1 senior audit manager, 1 audit manager, 1 auditor, 1 co-op student and \$25,000 professional services for subject matter experts	\$370.7
Enhancement to data analytics to keep pace with IT system developments and computerized data analysis	0.5 audit manager, 1 auditor and \$50,000 for IT subject matter expert	\$201.7
Enhancement to Forensic Unit	1 senior investigator, 1 audit manager - Forensic Unit, 1 co-op student - Forensic Unit, \$25,000 contracted services (Hotline backup), \$25,000 professional services – forensic subject matter expert, \$50,000 legal services and \$33,000 computer software	\$392.0
Other base budget changes net	Reversal of gapping, reversal of one time 2015 enhancement - third party expertise, licencing fees for capital budget and normal increases in accordance with the guidelines (progression pay, benefit rate changes)	\$45.2
Total Budget Request Increase		\$1,009.6

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”. Section 178 of the *Act* states that

“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 Auditor General is responsible for evaluating programs, activities and functions of Divisions, Agencies and Corporations, and the Offices of the Mayor and Members of Council. The Auditor General’s Office employs: performance auditors, IT auditors, forensic auditors, and financial auditors.

The Auditor General’s Office is independent from the City's management. The Auditor General reports directly to Council through the Audit Committee. As an independent office, the Auditor General submits an annual work plan and budget to the Audit

Committee. Of note, 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 2016 budget is contained in the attached document, entitled "Auditor General's Office – 2016 Operating Budget" (Appendix 1).

COMMENTS

The Auditor General's role is to provide assurance to City Council regarding quality of stewardship over public funds and the achievement of value for money in City operations. As a by-product of fulfilling her assurance mandate, the Auditor General's Office identifies significant savings for the City. The City is obtaining considerable value for the current resources allocated to the Auditor General's Office. In terms of value for money the Auditor General's Office has clearly demonstrated that the cost savings increases identified through its audit work are significantly in excess of its annual budget. Examples of some of the potential annual cost savings are included in Appendix 3. The annual benefits of the Office are outlined in the Auditor General's 2014 Annual Report - Demonstrating the Value of the Auditor General's Office.

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=8f58f58c18921310VgnVCM1000003dd60f89RCRD&vgnnextchannel=00c3e03bb8d1e310VgnVCM10000071d60f89RCRD>

At its June 26, 2015 Audit Committee meeting, members of the Audit Committee asked the Auditor General what she needed to be able to provide sufficient audit coverage to the City's major programs outlined in the audit work plan.

For the first time since the creation of the Office in 2002, the Auditor General is requesting an important budget increase. Considering the size and complexity of the City and size of the City's budget, more funding support is needed. The current budget of the Auditor General's Office is, proportionately, significantly less than many major cities in North America as shown in Appendix 1. Based on this analysis, the Auditor General's budget should be increased to a level commensurate with the size of the City and complexity of government. Approval of the enhanced budget will allow the Auditor General to provide sufficient audit coverage so that she can more fully inform Council about whether assets are safeguarded and whether the City is receiving value for money in operations. In addition to providing the assurance to City Council as required under the *City of Toronto Act*, the benefit to the City will be additional cost savings and revenue increases, added efficiencies, and fraud and waste avoidance.

The 2016 increase in the Auditor General's budget relates to additional salary and non-salary resources for enhancements to the audit function, data analytics and the Forensic Unit. It also includes base budget changes, for reversal of gapping, reversal of one time 2015 enhancement for third party expertise, staff's performance pay, benefit rate changes, anticipated annual license costs for the forensic database and electronic working paper

applications approved in last year's capital budget, and economic factor adjustments for the non-payroll budget.

In 2015, the Office completed a detailed risk assessment of City operations. The risk assessment is conducted every five years by the Auditor General's Office. The priorities identified from the risk assessment and the results of trends identified through the work of the Forensic Unit resulted in a multi-year Audit Work Plan that was presented to the Audit Committee May 22, 2015.

CONCLUSION

While appreciative of the financial constraints at the City, the current staffing under which the Office is operating is inadequate for a City of the size and complexity of Toronto.

Under all available yard sticks, whether it be legislative requirements on resource size 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 underfunded.

While certain audit reports have resulted in tangible cost savings, the more important benefits provided relate to the avoidance of future costs, a more efficient and effective City, as well as the protection of City assets.

The Auditor General's 2014 Annual Report - *Demonstrating the Value of the Auditor General's Office* outlines the extent of quantifiable financial benefits that result from the work conducted by this office. The report indicates that for each \$1 invested in audit resources, the return in relation to cost savings is approximately \$11.8. Many of these estimated cost savings are ongoing and occur on an annual basis. Extensive additional savings continued to be identified in 2015. Based on the cost savings identified in this report, which are examples only, the return on the investment of additional funds in the Auditor General's Office is significant. The net new budget request only represents approximately 1/5th of one recurrent audit saving on one of our 2015 audits.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

Appendix 1 – Auditor General’s Office – 2016 Operating Budget

Appendix 2 – Auditor General’s Office – Audit Reports Issued in 2015

Appendix 3 – Examples of Potential Five Year Cost Savings Identified as a Result of
Various Audits

AUDITOR GENERAL'S REPORT

**Auditor General's Office
2016 Operating Budget**

October 7, 2015

**Beverly Romeo-Beehler, CPA, CMA, B.B.A, JD
Auditor General**



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Auditor General’s Office – Organizational Chart and Workforce, as at December 31, 2015	Exhibit 1
Association of Local Government Auditors – External Quality Control Review of the City of Toronto Auditor General’s Office.....	Exhibit 2
Robert Gore & Associates Chartered Accountant – 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, 2014.....	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".

Auditor General's role under the City of Toronto Act

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.*"

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. The Auditor General audits the City, its local boards (restricted definition) and other City controlled corporations as specified by Council.

External Financial Auditor

(2) 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.

Internal Audit Division

(3) 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.

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.*"

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*. This auditor 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, 2015. 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

A separate external auditor has been appointed for the City Community Centres, City Arenas and a number of other City entities (Heritage Toronto, Yonge-Dundas Square Board of Management, the Toronto Atmospheric Fund and the Clean Air Partnership).

In November 2012, City Council approved a five-year contract with Welch LLP, for the years 2013 to 2017 inclusive, to perform the financial statement audits for these entities.

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 promote compliance with City policies and procedures.

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 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.

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, the Toronto Police Service and the Toronto Community Housing Corporation.

The Auditor General meets with each of these groups on a regular basis in order to ensure that she 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.

THE AUDITOR GENERAL'S OFFICE

***Auditor General's
role under the City
of Toronto Act***

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 audits and 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

To fulfill these responsibilities, the Auditor General:

1. Conducts value for money audit projects identified through the Auditor General's risk assessment process. Such projects are included in the Auditor General's annual work plan.
2. Conducts forensic investigations including those involving suspected fraudulent activities.
3. Conducts special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council.
4. Receives complaints through the Fraud and Waste Hotline Program and coordinates with management to ensure all concerns and issues are addressed so that City funds are safeguarded.
5. Oversees the work and the contract of the external auditors performing annual financial statement audits.
6. Follows up recommendations contained in previous audit reports.
7. Reports to Council regarding the quality of stewardship over public funds and whether value for money is being achieved in City operations.

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. The standards help to ensure there is audit 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 Chartered Professional Accountants of Ontario, 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://www1.toronto.ca/wps/portal/contentonly?vnextoid=68f289b44e713310VgnVCM1000003dd60f89RCRD&vnextchannel=06e3e03bb8d1e310VgnVCM10000071d60f89RCRD>

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 Office fourth successful quality assurance review

The Auditor General's Office underwent its fourth successful quality assurance review during August 2015.

A written opinion letter and a management letter 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.

The next quality assurance review will be conducted in 2018.

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, 2014 was presented to Audit Committee on May 22, 2015. The report issued by Robert Gore & Associates the independent external auditor is attached to this report as Exhibit 3.

The report indicates that *“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.”*

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. 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 – 2016 BUDGET REQUEST

2016 Budget Request

Details relating to the 2016 budget request for the Auditor General's Office are as follows:

	2016 Budget Request (\$000s)	2015 Approved Budget (\$000s)	2015 Projected Actual (\$000s)
Salaries	4,204.8	3,634.2	3,584.2
Employee Benefits	1,067.0	926.3	906.3
Gapping	(0.0)	(39.5)	(39.5)
Sub Total	5,271.8	4,521.0	4,451.5
Services, Materials and Supplies	432.8	173.3	173.3
Interdepartmental Charges	22.3	22.3	22.3
Sub Total	455.1	195.6	195.6
Total	5,726.9	4,717.3	4,646.6

Budget request

The amount of \$5,726.9 thousand is the Auditor General's budget request for 2016. This includes base budget changes at \$45.2 thousand, a request for 6.5 new positions plus 2 co-op students at a cost of \$699.4 thousand for partial year budget requirement of nine months and a non-salary budget request for \$265.0 thousand. The non-salary budget request includes \$23.3 thousand one-time budget request for office equipment, furniture and computer hardware for new staff.

21.4% increase from 2015 to 2016 budget

The Auditor General's 2016 budget request has increased by \$1,009.6 thousand from the 2015 level. The increase in the Auditor General's budget from 2015 to 2016 is 21.4 per cent.

This increase includes the following:

Base Budget Changes

An increase of \$45.2 thousand net, relates to base budget changes for reversal of gapping, reversal of one time 2015 enhancement for third party expertise, staff's performance pay, benefit rate changes, anticipated annual license costs for the fraud and waste database and electronic audit working papers software applications approved in last year's capital budget, and economic factor adjustments for the non-payroll budget.

On-going capital and other resource requirements

The Auditor General's Office received approval in 2015 for capital funding to source a software solution that will provide an Audit, Complaint and Investigation Management System. The software solution to be implemented in 2016 has an annual license cost estimated at \$38.0 thousand which is included in the base budget changes above. The software replaces the outdated fraud complaint management database and automates working paper and risk management processes that will help to maximize the efficiency and effectiveness of the Office.

Enhancement to Audit Function

An increase of \$370.7 thousand is requested to enable the Auditor General's Office to perform additional audits identified as priority areas within the annual Audit Work Plan on an ongoing basis. This includes four additional positions to the Auditor General's Office staff complement, including a senior audit manager, an audit manager, one auditor and a full year co-op student. In addition, it includes \$25.0 thousand for professional services which will allow for purchasing external professional experts when required in relation to audit work conducted. The audit standards require audit teams to acquire sufficient expertise when conducting their work. From time to time this expertise needs to be acquired via a third party.

***More audits
more cost
savings/revenue
increases***

Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process. However, the current staff level is insufficient for the City's size and complexity and limits the Auditor General's capability to undertake audits currently on the "Backlog of Audit Projects" list included in the 2015 Audit Work Plan. Some key audits that will be undertaken with additional funding include areas that have never been audited in the past seven years, such as the TTC streetcar, subway and bus operations. Additional resources will enable the Auditor General to increase the number of audits completed on an annual basis. All audits will produce recommendations that result in improvements to City operations by identifying potential risks, strengthening management controls, improving accountability and enhancing the efficiency and effectiveness of City services stewardship over public funds and result in cost savings/revenue increases.

***Enhancement to
Data Analytics***

According to KPMG 2015 report on *Audit Trends*, the use of data analytics will be transforming audits. *"By analyzing millions of transactions through computerized data analytics, auditors can identify irregularities and key risk areas at a much more granular level."* It is important that the Auditor General expand the use of data analytics to benefit the City. KPMG notes that the developments are so important in audits that Audit Committees should 'stay on top' of the use of data analytics *"by asking their auditors how they plan to use Data and Analytics in the audit, how substantive procedures may evolve through this automated approach and where their capabilities will be in three to five years"*.

***Early detection
and avoidance
of potential
exposures***

The Auditor General's Office in keeping pace with technology has been using data analytics and related tools for the past number of years, however, such use has been limited due to lack of adequate resources. Additional dedicated resources will increase the Auditor General's ability to apply data analytics to analyze more and larger data-sets and expand its use to conduct additional Information Technology audits.

We have used data analytics in various projects to improve controls, identify savings and trends to address exceptions and anomalies. For example, our continuous controls monitoring program utilizes specialized data extraction software that analyses data to identify, on an ongoing basis, transactions that warrant further review. During our continuous controls review of telecommunication expenses, the use of data analytics enabled the Auditor General to identify \$290.0 thousand annual savings which will result in total savings of approximately \$1.5 million over a 5-year period.

Realizing the importance and the future trend, the Auditor General has made data analytics a key component within the Annual Audit Program. The plan is to develop additional expertise through staff training and allocate additional staff to perform data analytics on an ongoing basis for areas where significant funds are involved or that will benefit from continuous monitoring of controls. With additional resources the use of data analytics will be expanded within the City and the continuous controls monitoring program will be applied to other City Agencies and Corporations.

The use of data analytics has identified multimillion dollars in savings for the City over the past few years. A budget increase of \$201.7 thousand is requested to accommodate dedicated staff resources to data analytics within the Auditor General's Office. This includes one and one half additional positions to the staff complement. Together with another half audit manager position currently in the Auditor General's Office staff complement this will result in an audit manager and a full year co-op student dedicated to data analytics.

In addition, the budget includes \$50.0 thousand for professional services which will allow for purchasing external professional expertise when required in relation to information and technology audits. Historically the Auditor General's Office has undertaken limited IT security audits, According to KPMG *"Cyber security has become an enormous issue in the last few years and its importance continues to grow. Major corporations' networks and systems continue to be subject to hacking and attack"*, and *"is therefore essential for Audit Committees to understand what management is doing to mitigate IT risks."* The Auditor General will provide this information to the Audit Committee and Council through her IT audits. The combination of qualified AG staff with appropriate external expertise will allow the Auditor General to complete work in this area.

Enhancement to Forensic Unit

In order for the Auditor General's Office to conduct key investigations, increase oversight over investigations led by management and enhance the effectiveness of the Forensic Unit, the increase of \$392.0 thousand is proposed for the following dedicated resources to the Forensic Unit:

- Three additional positions including a Senior Investigator, one Audit Manager, Forensic Unit and one full year co-op student.
- Engaging a third-party complaint intake function to automate and increase efficiency in the complaint intake process, improve the timeliness of complaint administration and provide a 24/7 service. This would also enable Forensic Unit staff to redirect time from administrative processing of complaints to substantive investigative work.
- \$33.0 thousand for annual software license for an e-mail review tool (shared with other Accountability Offices). The speed and effectiveness achieved using the tool's automated processes when reviewing emails is essential in the analysis of significant volumes of data compiled during investigations.
- \$25.0 thousand for professional services. The Auditor General requires investigators with specialized knowledge and expertise, from time to time, to meet her obligations under the *Act*, including the investigation of reported wrongdoing.
- \$50.0 thousand for external legal services, from time to time, to provide independent advice on legal issues arising, such as challenges to access of records and governing legislation, in the context of the Auditor General's responsibilities under the *Act*. To date, lack of funding has resulted in the City Manager's Office having to fund external legal services for the Auditor General.

Independent oversight over investigations and operational efficiencies

A core responsibility of the Auditor General includes the operation of the Fraud and Waste Hotline Program. This Program involves receiving complaints from employees and the public and conducting independent investigations into allegations of wrongdoing. The Program also provides independent oversight over investigations conducted by management.

Management of the City's Fraud & Waste Hotline Program

The Auditor General's Office has been administering the City's Fraud and Waste Hotline Program since its inception in 2002 and established a dedicated Forensic Unit In 2005. The investigation of fraud is inextricably linked to the Auditor General's role to report on the quality of stewardship over public funds. In 2015 Council reinforced the Auditor General's current role in the investigation and resolution of reported wrongdoing by adopting the Toronto Public Service By-law that introduced a new Disclosure of Wrongdoing framework. Under this new framework the Auditor General has sole responsibility to investigate allegations of reprisal against those who report wrongdoing, a responsibility previously shared with the City Managers' Office.

Reduced oversight over referrals to City divisions due to resource constraints presents risks

Increased workloads and ongoing resource constraints have impacted the work of the Auditor General's Forensic Unit. The Office does not have sufficient resources to lead key investigations resulting in City management having to do so. Current resources have also reduced the level of oversight the Auditor General's Office is in a position to provide over investigations conducted by City management. This reduced level of independent oversight presents a risk to the City of Toronto.

There have been instances where management had been requested to lead an investigation and found a complaint to be unsubstantiated. Upon further independent review by the Auditor General's Forensic Unit, it was determined that allegations were in fact substantiated requiring further action by management. Additional resources are needed to ensure the Auditor General can lead key investigations and provide an appropriate level of independent oversight over investigations led by City management.

It is in the public's interest to have strong independent oversight and effective investigations conducted by the Auditor General's Office. Providing the Auditor General's Forensic Unit with sufficient staff resources and investigation tools is critical to enable us to conduct key investigations and automate processes to improve effectiveness of Forensic Unit operations. The requested resources will enable the Auditor General to provide sufficient independent oversight over investigations, including those led by management, which strengthens government accountability and stewardship over public funds across the City.

92% of budget is salaries and benefits

The majority of the Auditor General's 2016 budget request consists of salaries and benefits. The percentage of salaries and benefits to the total budget is just over 92 per cent.

Auditor General's Office staff complement

The Auditor General's Office full staff complement currently consists of 29.5 staff positions comprised of four senior management, 22.5 professional, a supervisor administration and 2 administrative staff positions.

With the additional staff resources requested in the 2016 budget the staff complement will increase by 6.5 professional and 2 co-op student positions.

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.

Cost Savings from reports issued since 2010

Appendix 3 attached to this report lists examples of potential five year cost savings identified as a result of various audits.

The Benchmarking of Audit Costs – Comparisons with Other Municipalities

The Auditor General’s Office has benchmarked 2015 City audit costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States.

Comparison of Audit Costs

	2015 Municipal Budget (in \$000s)	2015 Audit Costs (in \$000s)	Audit Costs as a % of Municipal Budget
	\$	\$	%
Canadian Jurisdictions			
Toronto	11,435,334	4,717	0.04
Ottawa	3,388,018	1,751	0.05
Vancouver	1,223,395	740	0.06
Calgary	4,045,295	2,324	0.06
Edmonton	2,362,761	2,274	0.10
Halifax	869,200	965	0.11
Quebec City	1,365,700	1,443	0.11
Montreal	4,882,580	6,020	0.12
Laval	785,200	1,320	0.17
U.S. Jurisdictions			
Chicago	8,896,000	5,945	0.07
Austin	3,493,973	2,759	0.08
San Jose	3,010,365	2,413	0.08
Dallas	2,257,503	2,844	0.09
Phoenix	3,532,100	4,033	0.11
San Diego	2,697,298	3,575	0.13
Detroit	2,413,545	3,468	0.14
San Francisco	7,929,878	13,570	0.17
Philadelphia	4,524,565	8,072	0.18

Audit costs are the lowest

Audit costs relating to the Auditor General's Office as a percentage of the City's municipal budget is in the range of 0.04 per cent. This percentage is the lowest of all surveyed major cities in Canada and the US.

This percentage is consistent with that reported in the City Manager's recent report entitled *Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions* adopted at City Council April 2013. This report included the following statement:

"The comparison demonstrates that Toronto allocates the lowest percentage of its operating budget (0.04%) to the auditor general function across all of the municipalities surveyed."

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

Toronto audit costs

The total costs of \$4,717.3 thousand represents audit costs of the Auditor General's Office only. The comparatives for other Canadian and US jurisdictions represent similar functions as those of the City's Auditor General.

There are other audit functions throughout the City, although it is only the Auditor General who provides independent assurance to City Council regarding whether public funds are safeguarded and whether the City is receiving value for the monies spent. The internal audit functions are a support for management. They are generally not independent as they report to management. Nevertheless, if the budgets of these entities were included in the total audit costs of the City, the percentage of audit costs to the City's budget would still only be in the range of 0.07 per cent.

Predetermined Audit Costs in Certain Jurisdictions

Quebec legislation mandates audit resources be a set percentage of the total City budget

Of significance in the comparison of audit costs between municipalities is 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 \$12.6 million. This percentage approximates the median audit budget as a percentage of operating budgets for the cities included in the table above.

Quebec model would increase City audit budget by \$4.8 million

Using the Quebec model as a guide, the audit budget at the City would increase significantly. 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 should be increased to a level commensurate with the size and complexity of the City.

City Manager's recent report on funding models for accountability functions in the City

In April 2013 City Council adopted a report from the City Manager entitled *Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions*. This report included the following:

“If the Province of Quebec’s percentage formula of 0.11% is applied the Auditor General’s budget would be 10.3M. While if the City of San Francisco’s percentage formula of 0.2% is applied, it would be \$18.8M. As previously noted, it is the view of the City Manager that the City’s audit resources, including the Auditor General’s Office, are lean relative to the size and complexity of Toronto’s government.”

“Should City Council wish to consider changes to this funding model or levels of resourcing for the Auditor General or Toronto’s other accountability functions, including consideration of moving to a fixed percent funding model, further direction should be provided to Executive Committee who has carriage over the establishment and governance of Toronto’s accountability functions. If City Council determines to move to a fixed percent funding model to fund some or all of its accountability functions, further analysis and research will be required in order to determine the appropriate percent.”

Recognize the financial constraints

In submitting the 2016 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, and the value received exceeds the costs of the program. In order to address audit projects which have been deferred and accommodate the increased volume of allegations received by the Fraud and Waste Hotline, the additional resources requested in this budget will be effectively utilized.

Audit costs including new budget request remain the lowest at 0.05%

Audit costs, including the new budget request, relating to the Auditor General’s Office as a percentage of the City’s municipal budget will be at 0.05 per cent. This percentage is still the lowest of all surveyed major cities in Canada and the US.

Auditor General's Strategic Plan

The Auditor General in 2015 commenced development of a five year strategic plan for the Auditor General's Office. The Strategic Plan will outline the Auditor General's Office strategic directions over the next five years and will be submitted to the first Audit Committee in 2016.

City-wide Audit Priority Assessment

City-wide risk assessment completed in 2015

The Auditor General's Office conducts a City-wide risk assessment every five years to identify organizational risk. The process increases the auditor's knowledge of the audit environment and identifies high risks that require audit attention. A significant amount of audit resources are dedicated to complete this process. The results of this assessment are used to set the audit priorities for the next five years.

Following completion of the City-wide risk assessment, the 2015 Audit Work Plan was updated and submitted to Audit Committee May 22, 2015. The updated Audit Work Plan includes a "Deferred Projects in Priority Areas" list which identifies 55 projects as high priority. This list also identifies 16 projects in organizational units not audited in the past 7 years.

Fraud and Waste Hotline

Importance of the Forensic Unit and the Fraud and Waste Hotline

The work of the Forensic Unit is integral to the Auditor General's responsibility to assess the quality of the stewardship over public funds and evaluate value for money. The Forensic Unit receives allegations related to the misuse, waste and misappropriation of public funds and assets. The Forensic Unit coordinates the investigation into each allegation of wrongdoing.

Over the years, data collected in relation to allegations received provide a picture of significant risks impacting the City's stewardship over public funds and the achievement of value for money in operations. This data is useful in identifying where audits are needed, and has led to key audits that have had significant findings, including the audit of software licences, the audit of long term disability, and the audit of road maintenance.

Fraud and Waste Hotline supported by City Council

The Hotline Program helps the Auditor General to fulfill her mandate under the *Act*. The Hotline Program helps to identify where City funds are not safeguarded and it helps to deter and detect fraud and waste at the City.

City Council adopted a *Fraud Prevention Policy* in 2000 to provide guidance to employees when misuse or misappropriation of City resources and assets are suspected and to outline the responsibilities of the Auditor General and management for investigating and resolving allegations. In November 2002, after a six-month pilot, City Council also authorized the Auditor General to establish and operate a fraud and waste hotline program.

This core responsibility was reinforced through Council's adoption of a new framework for the disclosure and investigation of wrongdoing, pursuant to Council's approval of a Toronto Public Service By-law, at its meeting of June 10-11, 2014.

Additional responsibilities assigned by City Council

The by-law assigned to the Auditor General the sole responsibility to investigate complaints of reprisal or retribution against those who report wrongdoing.

Prevention and detection are key to managing risk of fraud and other wrongdoing

Under the *Act*, the Auditor General is responsible to evaluate the quality of safeguarding over public funds. Prevention and detection remain key components in managing the business risk of fraud that results in direct financial losses and indirect costs such as additional management resources to investigate and correct wrongdoing. The Association of Certified Fraud Examiners reported in its *2014 Global Fraud Study* that fraud tips are consistently and by far the most common detection method to discover fraud. Over 40 per cent of all fraud and waste cases were detected by a tip, more than twice the rate of any other detection method. They also noted that employees account for nearly half of all tips that led to the discovery of fraud. Organizations with hotlines were much more likely to detect fraud by a tip.

Increase in Fraud and Waste Hotline activity

When the Hotline was established it was recognized and acknowledged that during its initial phase the Hotline could be accommodated with existing resources. The number of complaints submitted to the Fraud and Waste Hotline has increased significantly since the inception of the program, although from year to year, the number of complaints can vary.

This volume is expected to grow during the next year when the Forensic Unit refreshes its communication campaign to encourage employees and the public to forward fraud and waste complaints to the Hotline.

By necessity the Auditor General's Office is selective in the investigative work it conducts due to limited staff resources. The majority of investigations are coordinated with divisional management, but the Auditor General's Office provides oversight, maintaining independence at all times.

The number of allegations increases and decreases because of the dynamic nature of the hotline program and various other factors. For example, the decrease in allegations in 2012 related to a decrease in the number of allegations involving the Toronto Community Housing Corporation (TCHC). In 2011, the hotline program received 121 allegations regarding TCHC in response to various high profile audit reports issued by the Auditor General's Office while in 2012, 2013 and 2014 it received 57, 56 and 40 complaints respectively relating to TCHC.

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

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

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

Year	Number of Individual Complaints	Multiple Allegations 2011 onwards
2002	157	↓
2003	238	
2004	347	
2005	577	
2006	503	
2007	523	
2008	619	
2009	677	
2010	570	
2011	822	
2012	774	1,500
2013	643	1,000
2014	687	1,200
2015	618*	TBD

* Number of complaints estimated to year end

Ultimately, the effectiveness of the Hotline Program does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud. The benefits of the Hotline and the Forensic Unit have been included in our annual reports.

<http://www1.toronto.ca/wps/portal/contentonly?vnextoid=35f974f2ea664310VgnVCM1000003dd60f89RCRD&vnextchannel=33f3e03bb8d1e310VgnVCM10000071d60f89RCRD&appName=default>

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 in 2015, the City continues to benefit from annual cost savings identified in previous reports.

Cost savings over last five years are in the range of \$235.6 million

In a report to the Audit Committee dated February 6, 2015 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 2010 to 2014 were in the range of \$235.6 million. The next annual report, updated for 2015 audits, will be tabled with Audit Committee at its first meeting in 2016.

\$11.80 dollar return for every \$1 invested

In simple terms for every \$1 invested in the Auditor General's Office the return has been approximately \$11.80. Examples of potential annual cost savings identified as a result of various audits are listed on Appendix 3.

Significant cost savings and other benefits

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

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 a risk analysis.

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 currently has no authority under the legislation to access records or conduct audit work at those "restricted" local boards. City Council has, however, authorized the Auditor General to undertake work at these restricted Boards if so requested by the Board.

Auditor General working with "restricted" local boards

In addition, at its meeting of September 30, October 1 and 2, 2015, City Council passed a motion to request the Province to expand the Auditor General's jurisdiction to these "restricted" local boards as part of the Province's upcoming review of the *City of Toronto Act*.

We should note the Toronto Police Services Board has requested audits in the past, and a significant amount of work has been conducted at the Toronto Police Service. The last audit report was completed in 2011. The Auditor General has recently been requested to audit level 3 and level 4 searches of persons.

The Auditor General's Annual Audit Work Plan

The 2015 Audit Work Plan was tabled at the first Audit Committee meeting in 2015, and was updated in May 2015, once the results of the risk assessment were finalized. Potential future audits range from assessing the procurement process matters, reviewing paving contracts, analyzing health benefits, testing the vulnerability of the City's IT systems, evaluating affordable housing initiatives and reviewing controls over expenditures.

The updated 2015 Audit Work Plan submitted to Audit Committee May 22, 2015 includes a "Deferred Projects in Priority Areas" list which identifies 55 projects as high priority. This list also identifies 16 projects in organizational units not audited in the past 7 years. Additional resources are needed to complete more projects.

For information purposes, the 2015 Audit Work Plan is available at:

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=580f74f2ea664310VgnVCM1000003dd60f89RCRD&vgnextchannel=00c3e03bb8d1e310VgnVCM10000071d60f89RCRD>

Conclusion

The budget to operate the Auditor General's Office for 2016 is projected to be \$5,726.9 thousand. This includes base budget changes at \$45.2 thousand, a request for 6.5 new positions plus 2 co-op students at \$699.4 thousand for partial year budget requirement of nine months and a non-salary budget request for \$265.0 thousand. The non-salary budget request includes \$23.3 thousand one-time budget request for office equipment, furniture and computer hardware for new staff. As indicated previously, just over 92 per cent of the Auditor General's 2016 budget request consists of salaries and benefits.

***\$11.80 dollar
return for every
\$1 invested***

Although the Auditor General's role is to provide Council with assurance about the quality of stewardship over public funds and that it is receiving value for money in city operations, 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 report entitled *Demonstrating the Value of the Auditor General's Office* indicates that for each \$1 invested in audit, the return has been approximately \$11.80.

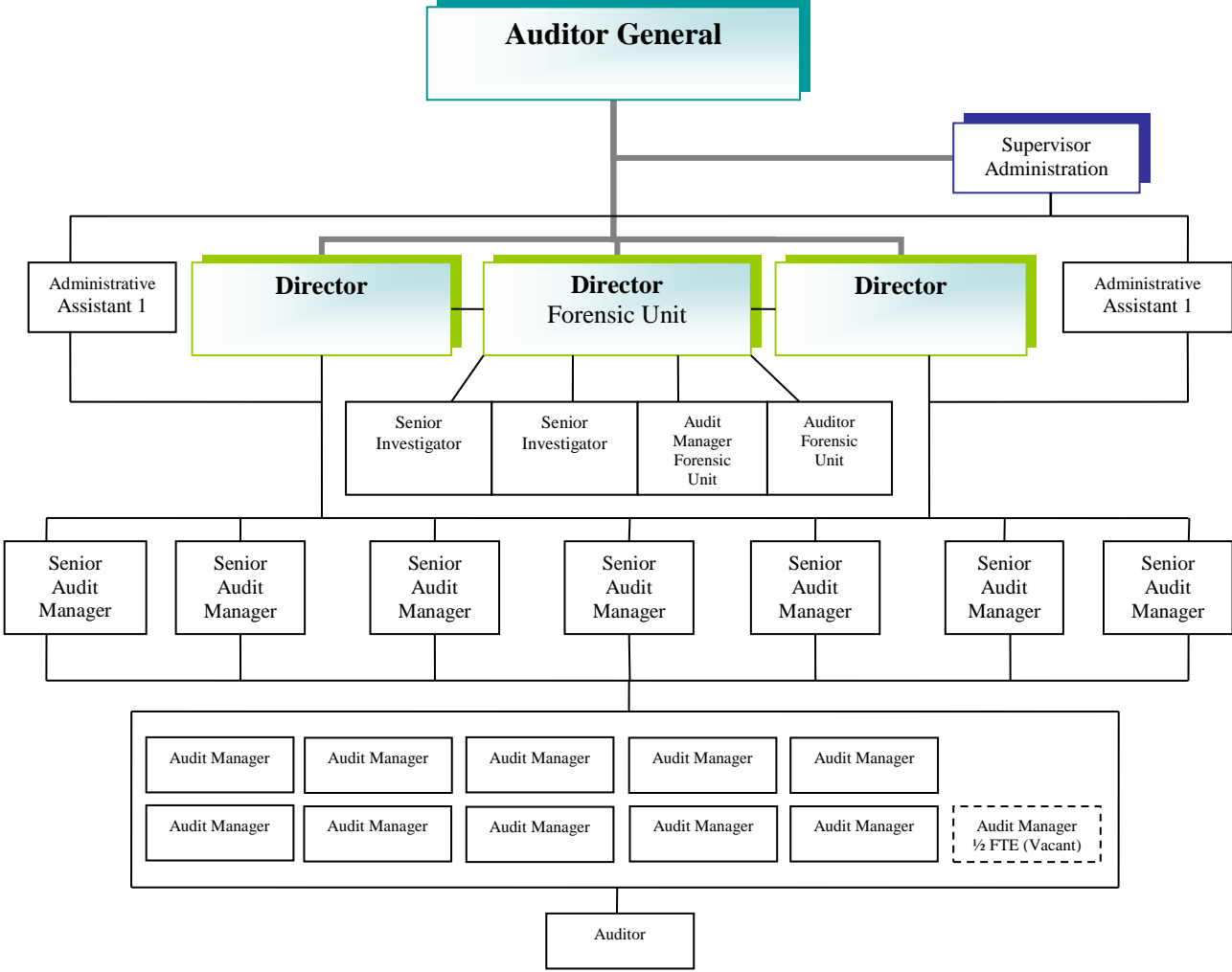
<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=8f58f58c18921310VgnVCM1000003dd60f89RCRD&vgnextchannel=00c3e03bb8d1e310VgnVCM10000071d60f89RCRD>

The Auditor General's Office has been cognisant of the City's budgetary constraints over the past number of years. Budget requests reflected this reality and the Office managed with resources available. However, a comparative analysis of legislative requirements in other jurisdictions, budget comparison with other municipalities and results of the recent risk assessment demonstrate the budget of the Auditor General's Office is inadequate in relation to the audit work required in the City.

Additional resources requested in the Auditor General's 2016 budget will enable completion of more projects and more Forensic Unit key investigations going forward which will result in additional cost savings and/or revenue increases and fraud and waste avoidance for the City of Toronto. The additional value received will continue to exceed the cost of the program.

Exhibit 1

**THE AUDITOR GENERAL’S OFFICE –
ORGANIZATIONAL CHART AND WORKFORCE
As at December 31, 2015**





External Quality Control Review

of the
City of Toronto Auditor General's
Office

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period January 1, 2012 through December
31, 2014



Association of Local Government Auditors

August 7, 2015

Beverly Romeo-Beehler, Auditor General
Auditor General's Office
55 John Street 9th Floor
Toronto, Ontario M5V 3C6

Dear Ms. Romeo-Beehler,

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2012 through December 31, 2014. 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).

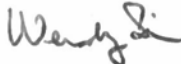
We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:


- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audits and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff, management, and members of the Audit Committee to assess their understanding of, and compliance with, relevant quality control policies and procedures.

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's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits from January 1, 2012 through December 31, 2014.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.


Wendy Simeon
City of Phoenix


Nancy Hunt
City of Kansas City, Missouri



Association of Local Government Auditors

August 7, 2015

Beverly Romeo-Beehler, Auditor General
Auditor General's Office
55 John Street 9th Floor
Toronto, Ontario M5V 3C6

Dear Ms. Romeo-Beehler,

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2012 through December 31, 2014 and issued our report thereon dated August 7, 2015. 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 standard templates and checklists the office has developed and incorporated into their audit processes helps ensure compliance with professional standards.
- The audit staff is highly qualified as evidenced by their numerous certifications and solid technical skills.
- The knowledgeable and efficient administrative team provides excellent support allowing the audit staff to conduct their audit work more efficiently.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Standard 3.76 requires auditors performing work in accordance with GAGAS to complete, every 2 years, at least 80 hours of CPE which includes at least 24 hours of CPE that directly relates to government auditing. In addition, auditors must complete a minimum of 20 hours of CPE each year. In reviewing the Office CPE records, we observed that not all staff members met all the CPE requirements. Some staff did not receive enough CPE hours; some hours were counted when participation was less than the required 50 minute minimum; and government hours were not properly tracked or met.

We recommend the Office review *GAO's Guidance on GAGAS Requirements for Continuing Professional Education* and implement additional procedures that ensure compliance with CPE requirements.

- Standard 7.31 states "When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. The previous Auditor General was not in compliance with CPE requirements for more than four years and other staff also did not meet the requirements.

We recommend the Office ensure the GAGAS statement is modified when applicable standards have not been followed.

- Standard 3.95 requires the audit organization to “summarize the results of its monitoring process at least annually with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action”. We noted that the annual quality reviews were not completed timely, the results of the quality reviews were not summarized, and recommendations and corrective actions were not documented. We also noted the Office attempted to review 100% of the audits completed although *Government Auditing Standards* do not require all audits be reviewed.

We recommend the Office select a sample of audits for quality control review, which will help ensure the annual quality review is completed timely, and document the results and recommendations of the reviews.

- Standard 6.11 states “Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: ...e) ongoing investigations or legal proceedings within the context of the audit objectives”. While the Office inquires about fraud, waste and investigations via its Survey Checklist, the Checklist did not specifically address legal proceedings.

We recommend the Office update the Survey Checklist to include reference to ongoing investigations and legal proceedings and document the consideration of legal proceedings in the work papers.

- Standard 6.83 c states “auditors should document supervisory review, before the audit report is issued.” The peer review team could not always determine when a report was issued, so were unable to determine whether supervisory reviews were completed before the report was issued.

We recommend the Office define report issuance date and ensure supervisory review occurs before the report issuance date.

- Standard 2.10 states “that performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action...”. Generally, when an audit organization reports information without following GAGAS, the work product is categorized as nonaudit services. While reviewing the “Auditor General Audit Reports” posted to the website, we noted all reports were presented as “Auditor General Audit Reports” including administrative and forensic projects. We noted the Office does not classify Forensic Reports as performance audits; however, one report stated the review was conducted due to numerous fraud hotline complaints; in addition, the report included recommendations for corrective action and management’s concurrence that action was needed and would be completed.

We recommend the Office remove “audit report” from any items issued that are not performance audits and consider whether some reports issued by the Forensic Unit are in fact performance audits.

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,



Wendy Simeon
City of Phoenix



Nancy Hunt
City of Kansas City, Missouri



Beverly Romeo-Beehler
CPA, CMA, B.B.A., JD
Auditor General

Auditor General's Office

Metro Hall
55 John St. 9th Floor
Toronto, Ontario M5V 3C8

Tel: 416-392-8030
Fax: 416-392-3754

September 1, 2015

Ms. Wendy Simeon
Internal Auditor
City of Phoenix City Auditor Department
17 S 2nd Ave, Suite 200
Phoenix, AZ 85003

Dear Ms. Simeon,

Thank you for leading the External Peer 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 City of 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 use of standard templates and checklists in our audit processes, and the quality of professional and administrative staff that contribute to our ability to conduct audit work efficiently and in compliance with professional standards.

We appreciate your observations and suggestions to further enhance our operations. Our response to each of the recommendations are highlighted below:

- *Standard 3.76 requires auditors performing work in accordance with GAGAS to complete, every 2 years, at least 80 hours of CPE which includes at least 24 hours of CPE that directly relates to government auditing. In addition, auditors must complete a minimum of 20 hours of CPE each year. In reviewing the Office CPE records, we observed that not all staff met all the CPE requirements. Some staff did not receive enough CPE hours; some hours were counted when participation was less than the required 50 minute minimum; and government hours were not properly tracked or met.*

We recommend the Office review GAO's Guidance on GAGAS Requirements for Continuing Professional Education and implement additional procedures that ensure compliance with CPE requirements.

AGO Response: Subsequent to the peer review we have reviewed GAO's Guidance on GAGAS Requirements for Continuing Professional Education (CPE). We have also implemented additional procedures that will help ensure compliance with ongoing CPE requirements, including:

- The 2-year CPE period was clarified in the Audit Manual and communicated to all staff;
- The designee for CPE tracking will ensure that:
 - Training will not qualify for CPE credit unless greater than 50 minutes
 - Supporting documentation for CPE hours will clearly identify hours claimed
 - Pro-rated hours will be calculated based on a six month period
- *Standard 7.31 states "When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report". The previous Auditor General was not in compliance with CPE requirements for more than four years and other staff also did not meet the requirements.*

We recommend the Office ensure the GAGAS statement is modified when applicable standards have not been followed.

AGO Response: We will ensure all staff are in compliance with CPE requirements as described in our response to the recommendation above. In the unlikely event staff do not meet CPE requirements, we will ensure the GAGAS statement is modified appropriately.

- *Standard 3.95 requires the audit organization to "summarize the results of its monitoring process at least annually with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action". We noted that the annual quality reviews were not completed timely, the results of the quality reviews were not summarized, and recommendations and corrective actions were not documented. We also noted the Office attempted to review 100% of the audits completed although Government Auditing Standards do not require all audits be reviewed.*

We recommend the Office select a sample of audits for quality control review, which will help ensure the annual quality review is completed timely, and document the results and recommendations of the reviews.

AGO Response: As part of our annual internal quality control review process, we will consider reducing our sample size. Additionally, we will endeavor to complete the annual internal quality control review and communicate the results and recommendations to AG staff within 3 months of year-end.

- *Standard 6.11 states "Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: e) ongoing investigations or legal proceedings within the context of the audit objectives". While the*

Office inquires about fraud, waste and investigations via its Survey Checklist, the Checklist did not specifically address legal proceedings.

We recommend the Office update the Survey Checklist to include reference to ongoing investigations and legal proceedings and document the consideration of legal proceedings in the work papers.

AGO Response: We have updated the Survey Checklist to include reference to ongoing investigations and legal proceedings. Auditors are required to enquire with management of any ongoing investigations and/or legal proceedings that may be within the context of the audit objective(s). Such enquiries/discussions and consideration of audit impact will be documented in the relevant working papers.

- *Standard 6.83 c states “auditors should document supervisory review, before the audit report is issued”. The peer review team could not always determine when a report was issued, so were unable to determine whether supervisory reviews were completed before the report was issued.*

We recommend the Office define report issuance date and ensure supervisory review occurs before the report issuance date.

AGO Response: The Auditor General will evaluate options and determine the appropriate report issuance date and apply it to audit reports going forward. The Auditor General's *Office Policies and Procedures Manual* requires that supervisory reviews of work performed that supports findings, conclusions, and recommendations included in the report occur before the report issuance date.

- *Standard 2.10 states “that performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action...”. Generally, when an audit organization reports information without following GAGAS, the work product is categorized as nonaudit services. While reviewing the “Auditor General Audit Reports” posted to the website, we noted all reports were presented as “Auditor General Audit Reports” including administrative and forensic projects. We noted the Office does not classify Forensic Reports as performance audits; however, one report stated the review was conducted due to numerous fraud hotline complaints. In addition, the report included recommendations for corrective action and management’s concurrence that action was needed and would be completed.*

We recommend the Office remove “audit report” from any items issued that are not performance audits and consider whether some reports issued by the Forensic Unit are in fact performance audits.”

AGO Response: We have revised the name of the website link from “Audit Reports” to “Reports”. All reports prepared by the Auditor General, including audit, continuous controls monitoring, annual, forensic, and other/administrative reports are identified as “Auditor General's Report”. Items that are not performance audits, are not considered

“audit reports”, but are still considered “Auditor General's Report”. Also, when appropriate, the Auditor General will consider whether reports issued by the Forensic Unit would be classified as performance audits.

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 Ms. Nancy Hunt for taking the time to review our operations, and for your participation in the ALGA peer review program.

Yours very truly,

A handwritten signature in black ink, appearing to read "B. Beehler". The signature is fluid and cursive, with a large initial "B" and a long, sweeping underline.

Beverly Romeo-Beehler
Auditor General

Exhibit 3

Robert Gore & Associates, Chartered Accountant – 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, 2014

The report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-79846.pdf>

AUDITOR GENERAL'S OFFICE AUDIT REPORTS ISSUED In 2015

- February 3, 2015 - Facilities Management - Security and Safety Improvements Required
- February 4, 2015 - Software Licenses - Managing the Asset and Related Risks
- February 5, 2015 - Review of Divisional Purchase Orders
- February 6, 2015 - 2014 Annual Report - Demonstrating the Value of the Auditor General's Office
- February 6, 2015 - Auditor General's Report – Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance
- February 6, 2015 - Auditor General's Report – Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement
- February 9, 2015 - 2014 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline
- February 11, 2015 - Service Efficiency Consultants Studies - Extent of Value for Money from Studies Has Not Been Clearly Demonstrated
- March 27, 2015 - Continuous Controls Monitoring Program – Toronto Transit Commission, 12-Month Review of Employees Overtime and Related Expenses, 2014
- April 21, 2015 - Auditor General's Office - Information Security Status Report –
- April 22, 2015 - Continuous Controls Monitoring - 12 Month Review of City Overtime, Standby Pay and Mileage Expenses, 2014
- May 1, 2015 - Improving the Administration of City Training Programs
- May 5, 2015 - City Continuous Controls Monitoring Program – 12 - Month Review of Staff Absenteeism, 2014
- May 29, 2015 Continuous Controls Monitoring – 12 Month Review of City Telecommunication Expenses, 2014
- June 3, 2015 - Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendations
- June 5, 2015 - Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions
- June 5, 2015 - Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies and Corporations
- June 11, 2015 - Implementing an Integrated City-wide Risk Management Framework
- June 11, 2015 - Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase Two Audit – Progress on Implementation of Audit Recommendations

Reports to be presented at October 23, 2015 Audit Committee Meeting

- Improving Property Tax Assessments and Payment in Lieu of Taxes (PILTs)
- Maximizing Value from a Learning Management System
- Management of the City's Long-Term Disability Benefits – Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits
- Continuous Controls Monitoring Program – Toronto Transit Commission, 12-Month Review of Employee Absenteeism, 2014
- Toronto Parking Authority – Phase 1: Audit of Real Estate Activities
- Response to Audit Committee's Request for Information Related to Item AU3.2f Toronto Parking Authority – 2014 Financial Statements

Appendix 3

EXAMPLES OF POTENTIAL FIVE YEAR COST SAVINGS IDENTIFIED AS A RESULT OF VARIOUS AUDITS

Audit Report	Five Year Cost Savings
Various 2015 Reports	\$37,500,000
Controls Over Telecommunication Expenses Need Improvement, 2014	\$1,450,000
Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc., Toronto Community Housing, 2012	\$5,250,000*
The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests, Toronto Community Housing, 2012	\$10,400,000*
Procurement Policies and Procedures, Toronto Community Housing, 2012	\$54,130,000*
Fleet Management, Toronto Community Housing, 2012	4,500,000*
Employee Expenses, Toronto Community Housing, 2011	\$6,000,000*
Police Paid Duty, 2011	\$9,000,000
Parking Enforcement Review, 2011	\$14,450,000
Red Light Camera Program, 2011	\$7,000,000
Insurance and Risk Management, 2011	\$2,430,000
Sewer Use By-law, 2011	\$3,700,000
Court Services Review, 2011	\$4,500,000

*This amount represents savings included in previous reports on the benefits of the Auditor General's Office. In December of 2014, TCHC reported the impact of implementing the recommendations from our reports. They advise that for the nine months ended September 30, 2014, they have cost savings of \$20 million from improved procurement processes, annual cost savings of \$4 million from some specific unit price contracts and, savings of \$350,000 over six months from the transfer of fleet operations to the City Fleet Services Division.