

2018 Audit Work Plan

Date: October 12, 2017

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

The purpose of this report is to provide City Council with an overview of the work the Auditor General plans to conduct in 2018.

The Auditor General's annual Audit Work Plan is based on projects identified from the latest risk assessment, as well as consultations with City Councillors and City management.

In response to the Council approved increase of \$1.0 million to the Auditor General's 2017 Operating Budget, five new audits were added to the 2017 Audit Work Plan. Additional audits have been planned for 2018 in anticipation of a further funding increase of \$1.5 million in 2018. These audits are described in Attachment 1. Planning activities for some of the audits on the 2018 Audit Work Plan will start as early as November 2017.

With the additional funding, the Auditor General can now address the high priority projects on a timelier basis by including more projects in her annual Audit Work Plan. This will result in a gradual decline of backlogged projects that have been constrained by prior years' operating budgets.

The Auditor General's Forensic Unit will also be undertaking more major investigations with the additional resources. Further, the Auditor General intends to continue with her focus on critical information technology risks across the City and its agencies and corporations. The Office will expand the use of data analytics in applicable audits and transition high-risk areas identified to its Continuous Controls Monitoring Program to provide ongoing reporting to management and City Council.

The additional funding will enable the Auditor General to acquire services of specialists on audits and investigations where subject matter expertise is required.

According to Chapter 3 of the Municipal Code, City Council may add to the annual audit plan by a two-thirds vote of all Council members. The Auditor General may amend the Audit Work Plan if new priorities arise.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive the Auditor General's 2018 Audit Work Plan.

FINANCIAL IMPACT

The recommendations in this report have no financial impact.

The Auditor General's 2018 Audit Work Plan reflects the additional capacity to undertake value for money audits and investigations provided through the Budget Committee recommended temporary planned increase of \$1.5 million to the Auditor General's Operating Budget in 2018, as approved by City Council on February 15, 2017.

DECISION HISTORY

On February 15, 2017, City Council approved a temporary increase to the Auditor General's 2017 Operating Budget and adopted the following:

"City Council approve the temporary increase of \$1.0 million, as reflected in the Auditor General's 2017 Budget Committee Recommended Operating Budget to provide additional capacity to undertake value for money audits and investigations, subject to a report back to Audit and Executive Committees from the Auditor General on a revised audit work plan, and that temporary planned increases of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 be subject to consideration in future year budget processes together with revised audit work plans."

After the adoption of the increase, the Auditor General submitted a revised 2017 Audit Work Plan at the March 24, 2017 Audit Committee meeting. The report is available at: <http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101843.pdf>

At the Audit Committee's June 27, 2017 meeting, the Auditor General provided a further update on the 2017 audits and her preliminary 2018 work plan, incorporating additional audits based on the recommended funding increase in 2018. The report is available at: <http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105132.pdf>

COMMENTS

Under Section 178 of the *City of Toronto Act, 2006*, 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”. Audits help City administrators improve City operations, mitigate risks facing the City, improve accountability, and enhance the efficiency and effectiveness of City services.

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive risk assessment of the operations of the City and its major agencies and corporations under her mandate. The results of the City-wide assessment are used to set audit priorities for the next five years. The latest assessment was completed in 2015. At that time, a number of areas for potential audits were identified. Appendix 4 of the 2016 Audit Work Plan submitted to the Audit Committee on October 23, 2015 includes a summary of the backlog of audits. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.6>

The results of the five-year risk assessment are evaluated each year during the audit planning process, and new risks are added to keep the risk universe up to date. The Auditor General also considers the views and experience of City Councillors and City management when developing her annual Audit Work Plan.

Planned audit projects, in any given year, depend on several factors, including:

- Risk factors such as program budget, system complexity, policies and procedures and other risks
- Availability of resources
- The extent of fraud investigations required during the year
- The extent of work performed by other internal audit functions throughout the City
- The number of special requests approved by City Council
- Other high priority issues which may emerge during the year

The annual Audit Work Plan is flexible to allow the Auditor General to respond to emerging issues.

Impact of Increases to the Auditor General's Budget on the Audit Work Plan

During 2017, the Auditor General added five new projects, accelerated or expanded the scope of selected performance audits, and broadened certain forensic investigations. An additional seven audits have also been included in the 2018 Audit Work Plan in anticipation of the Council-recommended temporary increase of \$1.5 million in 2018.

Attachment 1 provides the status of the 2017 audit projects currently underway. It also provides a list of audit projects planned for 2018 together with a brief description of each of the listed projects. Some projects in the 2018 Audit Work Plan will commence later in 2018 and will not be finalized until 2019.

The specific scope of the audit projects will be determined after the commencement of the individual project, and the Auditor General may revise the Audit Work Plan and/or the initial scope of audits as new information arises.

All Auditor General's audits are conducted in accordance with Generally Accepted Government Auditing Standards. These Standards require that the Auditor General plans and performs audits to obtain sufficient, appropriate evidence that provides a reasonable basis for the findings and conclusions. To comply with the Standards and the prescribed auditing procedures, each audit project takes on average nine months from start to finish by a team of two to three audit staff. A list of audit and investigation reports issued from January 2013 to October 2017 is included in Attachment 2.

Audits Requested by City Council or by Agencies and Corporations

City Council may request the Auditor General to conduct audits on areas of concern. According to Chapter 3 of the Municipal Code, Council may add to the annual audit plan by a two-thirds vote of all Council members.

In addition, the Boards of Directors of those agencies and corporations currently not under the Auditor General's jurisdiction, such as Toronto Police Service, Toronto Public Health, and Toronto Public Library, may request the Auditor General to conduct work.

In June 2017, Toronto Police Services Board requested the Auditor General to consider the merits of conducting a compliance audit of the Toronto Police Service procedure on "regulated interactions". The procedure relates to the requirement for the collection of identifying information in certain circumstances under the Police Services Act and Board policy. This practice is commonly known as "carding" or "street checks".

An original request on this matter was received in 2012. Due to internal police reviews at the time, the project was deferred. Given the ongoing public interest in police accountability related to this subject matter and the current request by the Toronto Police Services Board, the Auditor General is including this project in the 2018 Audit Work Plan. This audit will provide the Board with an independent assessment on the collection of demographic data from interactions between police and members of the community.

Other Responsibilities of the Auditor General

In addition to the projects included in the annual Audit Work Plan, the Auditor General's Office has a number of other activities underway. These activities include:

1. Hotline Operations and Investigative Work Related to Allegations of Fraud or Other Wrongdoing
2. Follow-up of Outstanding Audit Recommendations
3. Data Analytics and Continuous Controls Monitoring
4. External Audit Coordination
5. External Quality Assurance Review of the Auditor General's Office
6. Implementation of a New Audit, Complaint and Investigation Management System

1. Hotline Operations and Investigative Work Related to Allegations of Fraud or Other Wrongdoing

The Auditor General's Office operates the City's Fraud and Waste Hotline as an independent resource for employees or members of the public to report complaints of fraud, waste or other wrongdoing without fear of retribution.

The Auditor General's Forensic Unit focuses its investigative work on high-risk areas. During 2017, with the enhanced capacity afforded by the temporary increase to the Operating Budget, the Auditor General was able to carry out several significant investigations into complex cases. The number of complaints and complexity of reported allegations vary each year. It is difficult to predict the extent of investigative work required in any given year.

The Auditor General also reports to the Audit Committee each year on the status of Fraud and Waste related matters at the City. Alleged fraud or other wrongdoing comes to the attention of the Auditor General through the Fraud and Waste Hotline Program, notifications by Councillors or management, as well as through ongoing audit work. A more detailed account of the activities of the Fraud and Waste Hotline Program is available in the 2016 annual report submitted in early 2017:

<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101812.pdf>

2. Follow-up of Outstanding Audit Recommendations

Government Auditing Standards require the Auditor General to follow up on outstanding recommendations from previous audit and investigative reports. Recommendation follow-up is essential in determining whether management has taken appropriate action to implement the recommendations.

In 2017, the Auditor General's Office piloted a new follow-up reporting process. Under the new process, a dedicated team of staff conducts follow-up work on a year-round basis. The results of each City Cluster follow-up are separately reported to the Audit Committee. An annual report consolidating the results of follow-up work performed throughout the year is also provided to the Audit Committee.

Details of the new follow-up process are included in a report entitled "Auditor General's New Recommendation Follow-up Process and Response to Report Estimated Cost Savings Associated with Outstanding Recommendations". This report was presented to the Audit Committee at its October 2016 meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.9>

3. Data Analytics and Continuous Controls Monitoring

The use of computerized data analytics is a useful audit tool. It enables the Auditor General's Office to improve the risk assessment process, substantive procedures, and tests of controls. The benefits of using data analytics were evident in various audits reported in 2016 and 2017.

In addition, the Auditor General uses specialized data extraction software, on an ongoing basis, to identify transactions that warrant further review by management. The Office refers to this program as Continuous Controls Monitoring. Over the years, our work on the Continuous Controls Monitoring program has resulted in improved controls and significant savings for the City. For example, the Auditor General's findings from the 12-Month Review of City Telecommunication Expenses for 2014 and 2015, led management to undertake corrective actions that resulted in five-year savings of approximately \$1.5 million and \$1.07 million respectively.

The Auditor General plans to expand the use of data analytics and Continuous Controls Monitoring to cover more operations and activities of City divisions and agencies and corporations. The following is a list of potential areas that are being considered for 2018 and beyond:

- Telecommunication expenses
- Toronto building permits
- Employee health and dental benefit claims
- 311 data
- Sign permits and revenue capture
- Open data project and web analytics

4. External Audit Coordination

The Auditor General's responsibilities include the management, coordination and oversight of the external financial audits of the City, its agencies and corporations, Community Centre Boards of Management and Arena Boards of Management.

The external auditor for financial statements of the City and its major agencies and corporations, for the years ending December 31, 2015 to 2019 inclusive, was approved by City Council in March 2015.

The existing five-year contract for external audit services to perform the financial statement audits for City Arenas, Community Centres and miscellaneous entities (Heritage Toronto, Yonge-Dundas Square, the Toronto Atmospheric Fund and the Clean Air Partnership) will expire with the completion of the 2017 year-end audits. The Auditor General has initiated a request for proposal to perform the financial statement audits for City Arenas, Community Centres and miscellaneous entities for the years ending December 31, 2018 to 2022 inclusive. The result of the request for proposal will be considered by the Audit Committee and by City Council in 2018.

5. External Quality Assurance Review of the Auditor General's Office

The Auditor General's Office follows Generally Accepted Government Auditing Standards (GAGAS) for all audits. These standards require that "Audit organizations performing audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years."

Furthermore, Chapter 3 of the Municipal Code requires that the “Auditor General shall undergo an external peer review once every three years to ensure compliance with government auditing standards” and furthermore, “the results of the external peer review shall be reported to Council through the Audit Committee.”

The external peer review process includes a complete review of the Auditor General’s internal quality control policies and procedures, related monitoring activities, audit reports, and other necessary documentation related to compliance with Government Auditing Standards.

In accordance with these requirements, the Auditor General’s Office will undergo its fifth external peer review in 2018.

6. Implementation of a New Audit, Complaint and Investigation Management System

The Auditor General is in the process of acquiring an audit, complaint and investigation management system. The software solution will provide the Auditor General’s Office with an essential tool to manage Hotline complaints and an automated solution for audit working paper documentation. This software application will enable the Office to achieve significant operational efficiencies, improve quality controls, and reduce administrative and manual processes.

Conclusion

This report outlines the work of the Auditor General’s Office for 2018, including the annual Audit Work Plan and the other key activities undertaken by the Office.

The 2018 Audit Work Plan has been developed based on a balancing of audit priorities and audit resources. Attachment 1 details the 2018 Audit Work Plan. It incorporates additional audits in anticipation of the Council-recommended temporary increase of \$1.5 million to the Auditor General’s 2018 Operating Budget.

With the additional funding, the Auditor General can now address high priority projects on a timelier basis by including more projects in her annual Audit Work Plan. This will result in a gradual decline of backlogged projects that have been constrained by prior years’ operating budgets.

CONTACT

Ina Chan, Assistant Auditor General, Auditor General’s Office
Tel: 416-392-8472; Fax: 416-392-3754; E-mail: ina.chan@toronto.ca

Jane Ying, Assistant Auditor General, Auditor General’s Office
Tel: 416-392-8480; Fax: 416-392-3754; E-mail: jane.ying@toronto.ca

Syed Ali, Audit Director, Auditor General’s Office
Tel: 416-392-8438; Fax: 416-392-3754; E-mail: syed.ali@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1 – Auditor General's Office - 2018 Audit Work Plan
Attachment 2 – Audit and Investigation Reports Issued from 2013 to 2017