



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

## Auditor General's Office – 2017 Operating Budget

<b>Date:</b>	October 7, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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This report provides information relating to the 2017 budget for the Auditor General's Office and a budget for approval by the Audit Committee.

The Auditor General's 2017 budget request is \$4,902,400.

### RECOMMENDATION

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**The Auditor General recommends that:**

1. The Audit Committee approve the attached 2017 budget for the Auditor General's Office and forward it to Budget Committee.

### Financial Impact

The Auditor General's 2017 budget request of \$4,902,400 has decreased by \$130,900 thousand from the approved adjusted 2016 budget level. The decrease in the Auditor General's budget from 2016 to 2017 is 2.6 per cent.

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

	<b>2017 Budget Request (\$000)</b>	<b>2016 Approved Budget (\$000)</b>	<b>Decrease (\$000)</b>	<b>%</b>
Budget	\$4,902.4	\$5,033.3	\$130.9	2.6

## 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 Officer, 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 2015 Annual Report - Demonstrating the Value of the Auditor General's Office.

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90685.pdf>

City Council at its meeting July 12, 13, 14 and 15, 2016, adopted the following:

*“City Council adopt an across the board budget reduction target of -2.6 per cent net below the 2016 Approved Net Operating Budgets for all City Programs, Agencies, Toronto Community Housing Corporation, and Accountability Offices, and that strategies including but not limited to the following strategies be used to achieve the -2.6 per cent target...”* One of the seven strategies adopted was *“explore all services for efficiency savings including opportunities from business process reengineering, streamlining, transformation and innovation to service delivery including from: a..., b..., c..., i) service delivery rationalization and restructuring;”*

In addition, City Council directed that *“the operating and capital guidelines...be applied to the Accountability Offices for the 2017 Budget Process.”*

The Auditor General’s budget request meets the 2017 budget reduction target of 2.6 per cent below the 2016 Approved Net Operating Budget. This will be achieved through restructuring by deleting senior management positions and converting senior management positions to junior level positions on a permanent basis.

## **CONCLUSION**

The Auditor General is appreciative of the financial constraints at the City, and is submitting a budget request that meets Council’s directive to decrease the 2017 budget by 2.6 per cent below the 2016 Approved Net Operating Budget.

The majority of the Auditor General’s 2017 budget request consists of salaries and benefits. Salaries and benefits comprise just over 96 per cent of the total budget.

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, other significant important benefits include the avoidance of future costs, a more efficient and effective City, and the protection of City assets.

The Auditor General’s 2015 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 \$11.2. Many of these estimated cost savings are ongoing and occur on an annual basis. Extensive additional savings continued to be identified in 2016. Based on the cost savings identified in this report, which are examples only, the return on the investment in the Auditor General’s Office is significant.

## **CONTACT**

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## **SIGNATURE**

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Beverly Romeo-Beehler, Auditor General

## **ATTACHMENTS**

- Appendix 1 – Auditor General's Office – 2017 Operating Budget
- Appendix 2 – Auditor General's Office – Audit Reports Issued in 2016
- Appendix 3 – Examples of Potential Five Year Cost Savings Identified as a Result of Various Audits

# **AUDITOR GENERAL'S REPORT**

## **Auditor General's Office 2017 Operating Budget**

**October 7, 2016**

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



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Association of Local Government Auditors – External Quality Control Review of the City of Toronto Auditor General’s Office.....	Exhibit 1
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 2

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# THE AUDIT FRAMEWORK AT THE CITY OF TORONTO

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***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 been operating for the past few years 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, the City's other Accountability Officers, and the Ontario Ombudsman and Auditor General to discuss any emerging issues.

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.

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## THE AUDITOR GENERAL'S OFFICE

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***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 wrongdoing.
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 1.

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, 2015 was presented to Audit Committee on July 4, 2016. The report issued by Robert Gore & Associates the independent external auditor is attached to this report as Exhibit 2.

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.

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## THE AUDITOR GENERAL'S OFFICE – 2017 BUDGET REQUEST

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### 2017 Budget Request

Details relating to the 2017 budget request for the Auditor General's Office are as follows:

	<b>2017 Budget Request (\$000s)</b>	<b>2016 Approved Budget (\$000s)</b>	<b>2016 Projected Actual (\$000s)</b>
Salaries	3,756.4	3,868.8	3,868.8
Benefits	952.9	974.3	974.3
<b>Sub Total</b>	<b>4,709.3</b>	<b>4,843.2</b>	<b>4,843.2</b>
Services, Materials and Supplies	170.8	167.8	167.8
Interdepartmental Charges	22.3	22.3	22.3
<b>Sub Total</b>	<b>193.1</b>	<b>190.1</b>	<b>190.1</b>
<b>Total</b>	<b>4,902.4</b>	<b>5,033.3</b>	<b>5,033.3</b>

***Budget request***

The amount of \$4,902.4 thousand is the Auditor General's budget request for 2017.

***2.6% net budget reduction  
From 2016  
approved budget***

City Council at its meeting July 12, 13, 14 and 15, 2016, adopted the following:

*“City Council adopt an across the board budget reduction target of -2.6 per cent net below the 2016 Approved Net Operating Budgets for all City Programs, Agencies, Toronto Community Housing Corporation, and Accountability Offices, and that strategies including but not limited to the following strategies be used to achieve the -2.6 per cent target:”* One of the seven strategies adopted was *“explore all services for efficiency savings including opportunities from business process reengineering, streamlining, transformation and innovation to service delivery including from: a..., b..., c..., i) service delivery rationalization and restructuring;”*

In addition, City Council directed that *“the operating and capital guidelines...be applied to the Accountability Offices for the 2017 Budget Process.”*

With Council direction for 2017 budget to be 2.6 per cent below the 2016 approved budget, the Auditor General had to find \$217 thousand or 4.2 per cent reduction in the 2017 base budget.

The 4.2 per cent is comprised of 1.7 per cent in budget pressure for cost of living adjustment, progression pay, benefits and inflation adjustments and the 2.6 per cent reduction below the 2016 Approved Net Operating Budget.

***96% of budget is salaries and benefits***

The majority of the Auditor General’s 2017 budget request consists of salaries and benefits. The percentage of salaries and benefits to the total budget is just over 96 per cent.

Since the Auditor General's budget is 96 per cent salaries, any reduction requires deletion of positions. As a result, the Auditor General will implement a reorganization by deleting a senior management position and converting professional positions to junior level positions on a permanent basis.

***Auditor General’s Office staff complement***

The Auditor General’s Office full staff complement currently consists of 31.5 staff positions comprised of 4 senior management, 24.5 professional, a supervisor administration and 2 administrative staff positions.

By reorganizing, using resources more efficiently, and redistributing the workload, the Auditor General’s Office full staff complement will consist of 32 staff positions comprised of 3 senior management, 26 professional, a supervisor administration and 2 administrative staff 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 2011*

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 2016 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

	<b>2016 Municipal Budget (in \$000s)</b>	<b>2016 Audit Costs (in \$000s)</b>	<b>Audit Costs as a % of Municipal Budget</b>
	\$	\$	%
<b>Canadian Jurisdictions</b>			
<b>Toronto</b>	<b>11,751,896</b>	<b>5,033</b>	<b>0.04</b>
Ottawa	3,169,180	1,790	0.06
Vancouver	1,264,476	750	0.06
Calgary	4,216,863	2,336	0.06
Winnipeg	1,702,053	1,368	0.08
Edmonton	2,520,271	2,542	0.10
Halifax	873,243	946	0.11
Quebec City	1,403,600	1,600	0.11
Montreal	5,061,200	6,112	0.12
Laval	810,500	1,300	0.16
<b>U.S. Jurisdictions</b>			
Chicago	9,320,600	6,011	0.07
San Jose	3,190,188	2,415	0.08
Austin	3,599,496	3,210	0.09
Phoenix	3,702,300	4,203	0.11
Dallas	2,390,056	3,005	0.13
San Diego	2,907,436	3,718	0.13
Detroit	2,804,800	3,776	0.14
San Francisco	8,919,113	15,536	0.17
Philadelphia	3,954,961	8,545	0.22

***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 \$5,033 thousand represents audit costs of the Auditor General's Office only, in 2016. 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 \$13 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 \$5 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***

We recognize the financial constraints under which the City operates and the budget request reflects this reality. Although, more resources would result in more savings and reduce risk to the City.

***Audit costs remain the lowest at 0.04%***

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

## **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.

The 2016 Audit Work Plan submitted to Audit Committee October 23, 2015 reflects the City-wide risk assessment results. The 2016 Audit Work Plan includes Appendix 4 which provides a summary of the backlog of audits.

## **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 considers each allegation of wrongdoing, then oversees or directly investigates the allegations.

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 the 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 *2016 Global Fraud Study* that "*the most common detection method in our study was tips (39.1% of cases), but organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines. (47% compared to 28.2% respectively)*".

***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, but have remained fairly constant over the past few years. The number of complaints can, however, vary from year to year.

The number of allegations increases and decreases because of the dynamic nature of the hotline program and various other factors. 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. 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 2012, 2013, 2014 and 2015 it received 57, 56, 40 and 25 complaints respectively relating to TCHC.

The majority of investigations are coordinated with divisional management. Divisional management undertakes some frontline investigations, but the Auditor General's Office provides oversight, maintaining independence at all times for all complaints. By necessity the Auditor General's Office is selective in the investigative work it conducts due to limited staff resources. This year, we have or are commencing investigation into complex cases requiring highly specialized resources. The Auditor General is completing these cases by integrating and leveraging audit expertise and by contracting out for the required expertise.

***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**

<b>Year</b>	<b>Number of Individual Complaints</b>	<b>Multiple Allegations 2011 onwards</b>
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	572	800
2016	*564	*750

\* 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?vgnextoid=35f974f2ea664310VgnVCM1000003dd60f89RCRD&vgnextchannel=33f3e03bb8d1e310VgnVCM10000071d60f89RCRD&appInstanceName=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 2016, the City continues to benefit from annual cost savings identified in previous reports.

***Cost savings over last five years are in the range of \$229.7 million***

In a report to the Audit Committee dated February 18, 2016 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 2011 to 2015 were in the range of \$229.7 million. The next annual report, updated for 2016 audits, will be tabled with Audit Committee at its first meeting in 2017.

For information purposes, the 2015 report entitled *Demonstrating the Value of the Auditor General's Office* is available at:

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

***\$11.20 dollar return for every \$1 invested***

In simple terms, for every \$1 invested in the Auditor General's Office the return has been approximately \$11.20. 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, 2006*, 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. In 2015 the Auditor General was requested by Toronto Police Services Board to conduct an audit of level 3 and level 4 searches of persons. Just as the Auditor General was commencing this audit in 2016, the Office of the Independent Police Review Director announced a similar provincial audit that includes Toronto. Consequently, this audit is deferred until 2017.

**The Auditor General’s Annual Audit Work Plan**

The 2016 Audit Work Plan was tabled at the October 23, 2015 Audit Committee meeting. Potential future audits range from assessing the procurement process, reviewing contracts, evaluating affordable housing initiatives and reviewing controls over expenditures.

For information purposes, the 2016 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 2017 is projected to be \$4,902.4 thousand.

As indicated previously, just over 96 per cent of the Auditor General’s 2017 budget request consists of salaries and benefits.

The Auditor General’s Office has been cognisant of the City’s budgetary constraints over the past number of years. This budget request reflects this reality.

**Exhibit 1**

**Association of Local Government Auditors – External Quality Control Review of  
the City of Toronto Auditor General’s Office**

This report was submitted to the City’s Audit Committee on October 23, 2015 and is  
available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>

**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, 2015**

This report was submitted to the City’s Audit Committee on July 4, 2016 and is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.21>

**AUDITOR GENERAL'S OFFICE**

**REPORTS ISSUED IN 2016**

**Audit Reports**

- Toronto Parking Authority Phase 2: Audit of the **Revenue Operations of Off-Street Controlled Facilities** – January 12, 2016
- Audit of Information Technology **Vulnerability and Penetration Testing – Phase 1: External Penetration Testing** – February 16, 2016
- Audit of **Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening** – February 17, 2016
- Audit of Toronto Transit Commission **Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory** – May 12, 2016
- Audit of **City Cleaning Services – Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services** – June 14, 2016
- Audit of **City Cleaning Services – Part 2: Maximizing Value from Cleaning Contracts** – June 14, 2016
- Improving the Tendering Process for **Paving Contracts** – June 27, 2016
- Management of the City's **Long-Term Disability Benefits, Phase Two: Interim Report on the Approval and Monitoring of Claims** – June 30, 2016
- Auditor General's Status Report on **Outstanding Audit Recommendations for City Divisions** – June 14, 2016
- Auditor General's 2016 Status Report on **Outstanding Audit Recommendations for City Agencies and Corporations** – June 14, 2016
- Auditor General's Office – **Forensic Unit Status Report on Outstanding Recommendations** – May 30, 2016

**Annual and Administrative Reports**

- Response to the **Toronto Police Services Board's Audit Request** – February 3, 2016
- **2015 Annual Report on Fraud and Hotline Activities** – February 17, 2016
- Future **Audit of Toronto Hydro** – February 18, 2016
- 2015 Annual Report – **Demonstrating the Value of the Auditor General's Office** – February 18, 2016
- Toronto Transit Commission - **Updated Audit Work Plan** for 2016 and 2017 – May 11, 2016
- Amended **2016 Audit Work Plan** – June 13, 2016

## Continuous Controls Monitoring Reports

- **Continuous Controls Monitoring Program** – City Accounts Payable, January 1 to September 30, 2015 – February 16, 2016
- **Continuous Controls Monitoring Program** – City Accounts Payable, January 1 to September 30, 2015 – February 16, 2016
- **Continuous Controls Monitoring Program** – City Overtime and Standby Pay for 2015 – June 14, 2016
- **Continuous Controls Monitoring Program** – City Telecommunication Expenses for 2015 – June 14, 2016

## Reports to be presented at the October 28, 2016 Audit Committee Meeting

- Management of **Water Supply Contract for the Region of York**
- Audit of Information Technology **Vulnerability and Penetration Testing – Phase II: Internal Penetration Testing, Part 1 – Accessibility of Servers**
- Auditor General's Observations of a **Land Acquisition by the Toronto Parking Authority**
- Incorrect **Vacant Land Status Properties** Reduces City's Tax Revenue
- Management of the City's **Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Excessive and Unusual Drug Claims**
- Management of the City's **Long-Term Disability Benefits, Phase Two: A Proactive and Holistic Approach to Managing Employee Health and Disability**
- Strengthening Enforcement of the **Fair Wage Policy**
- Auditor General's Office – **2017 Operating Budget**
- Auditor General's Office **2017 Annual Work Plan**
- Auditor General's **New Recommendation Follow-up Process** and Response to Report Estimated Cost Savings Associated with Outstanding Recommendations
- **Continuous Controls Monitoring Program** – City Staff Absenteeism for 2015
- **Continuous Controls Monitoring Program** – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015

### Appendix 3

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

Audit Report	Five Year Cost Savings
Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, 2015	2,045,000*
Review of TTC Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance, 2015	2,500,000
CCM Program - TTC, 12-Month Review of Employee Absenteeism, 2014	2,000,000
Controls Over Telecommunication Expenses Need Improvement, 2014	\$3,381,000
CCM Program, 12-Month Review of City Telecommunication Expenses, 2014	\$2,310,000
City Accounts Payable – Payment Controls and Monitoring Require Improvement, 2013	\$20,434,000
Review of Wheel-Trans Services – Sustaining Level and Quality of Services Require Changes to the Program, 2012	\$11,208,000
Toronto Community Housing Corporation Fleet Management, 2012	\$4,500,000
The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests, Toronto Community Housing, 2012	\$2,080,000
Toronto Community Housing Corporation, Procurement Policies and Procedures, 2012	\$1,050,000
CCM Program - City Overtime and Mileage Expenses, 2012	\$17,500,000
Toronto Police Service, Police Paid Duty – Balancing Cost Effectiveness and Public Safety, 2011	\$9,400,000
Red Light Camera Program, 2011	\$6,950,000
Parking Enforcement Review, 2011	\$12,730,000
Toronto Community Housing Corporation Employee Expenses, 2011	\$5,000,000

\*Expected to increase substantially. Will be updated in 2017.