

The Audit Committee: Roles and Responsibilities

Date: January 31, 2019

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

In today's environment, audit committees are widely regarded as one of the cornerstones of an organization's oversight process. Audit committees are considered to have important governance responsibilities related not only to public financial reporting, internal controls and management of financial risks, but also to the oversight of an organization's values and ethics.

The Audit Committee is a Special Committee of City Council reporting directly to City Council. The roles and responsibilities of the Audit Committee are outlined in the Toronto Municipal Code.

Leading practices for effective audit committees require that their roles and responsibilities be clearly communicated to their members on an ongoing basis. This report is meant to address this requirement.

RECOMMENDATIONS

The Auditor General recommends that:

1. Audit Committee receive this report for information.

FINANCIAL IMPACT

The information contained in this report has no financial impact.

DECISION HISTORY

Under the City of Toronto Act, 2006, the role of City Council is to [emphasis added]:

- a) represent the public and to consider the well-being and interests of the City;
- b) develop and **evaluate the policies and programs** of the City;
- c) determine which services the City provides;

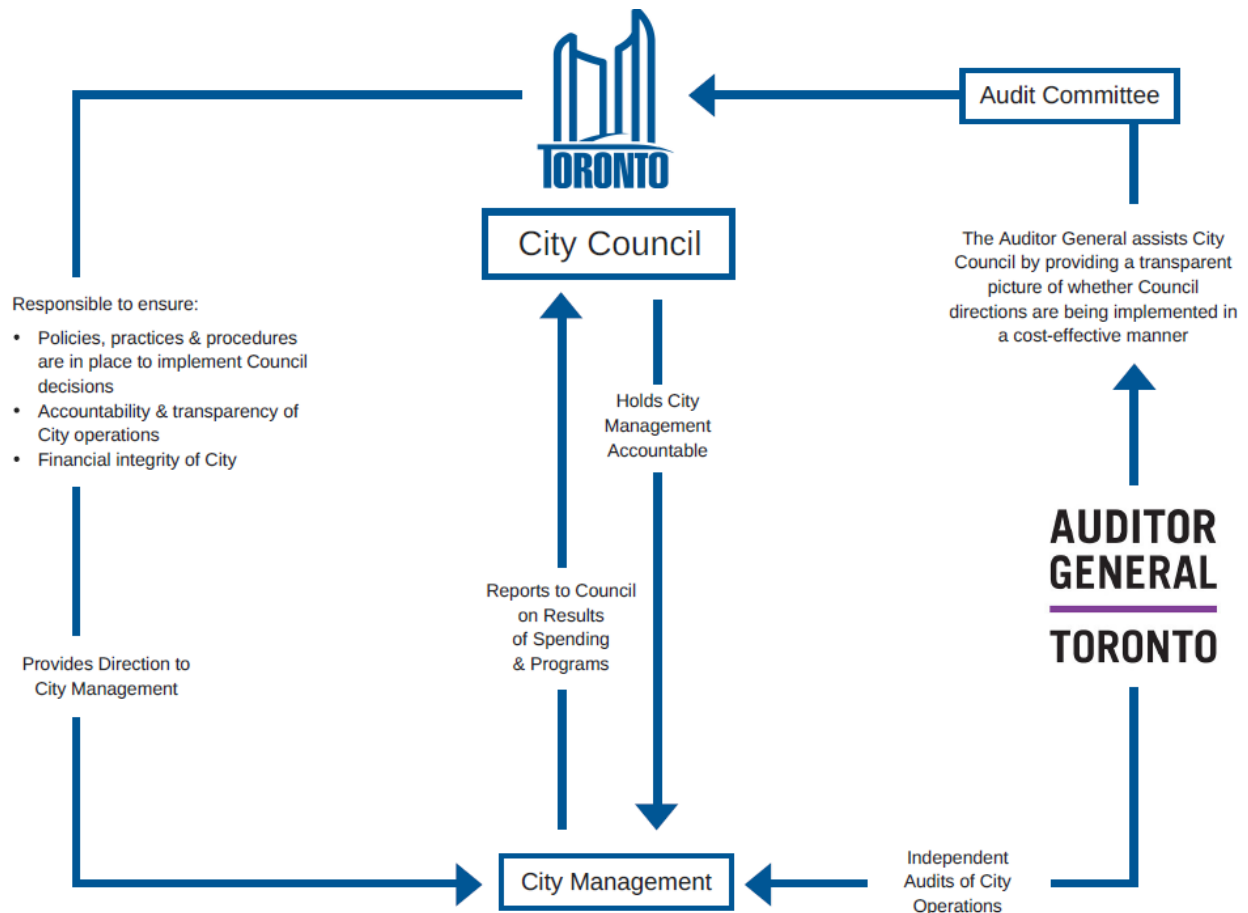
- d) **ensure** that administrative policies, practices and procedures and controllership policies, **practices and procedures are in place to implement the decisions** of council;
- e) **ensure the accountability and transparency of the operations** of the City, including the activities of the senior management of the City;
- f) **maintain the financial integrity** of the City; and
- g) carry out the duties of council under this or any other Act.

The Auditor General's mandate is also outlined in the City of Toronto Act, 2006. Under Section 178(1), 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.”*

City Council provides direction to City management to carry out programs, but it must ensure that City administrators carry out these directives in a cost-effective manner. The Auditor General assists City Council by providing transparent information so that Council can be assured that the City is operating effectively. Figure 1 illustrates this relationship.

Figure 1: How the Auditor General assists City Council



The responsibilities of the Audit Committee are set out in Toronto Municipal Code Chapter 27, Council Procedures.

https://www.toronto.ca/legdocs/municode/1184_027.pdf

The responsibilities of the Audit Committee include:

- Considering the Auditor General's reports and audit plan;
- Considering performance audits and other reports of the Auditor General concerning City agencies and City corporations;
- Making recommendations to Council on reports the Audit Committee considers;
- Conducting an annual review of the Auditor General's accomplishments;
- Recommending the appointment of the City's external auditor;
- Considering the annual external audit of the financial statements of the City and its agencies and corporations;
- Recommending the appointment of an external auditor to conduct the annual audit of the Auditor General's Office; and
- Considering the external audit of the Auditor General's Office.

Additionally, the Auditor General submits her annual budget request to the Audit Committee for consideration and recommendation to Council in accordance with Chapter 3 of the Toronto Municipal Code.

COMMENTS

Considering the Auditor General's Annual Work Plan and Reports on Audits and Investigations of City Divisions, Agencies and Corporations

The Auditor General prepares an annual work plan based on an evaluation of risk. The Auditor General also considers the views and experience of City Councillors and City management when developing the plan. This work plan is provided to the Audit Committee for information.

This work plan is intended to be flexible and may be amended depending on emerging priority issues. City Council, in accordance with Chapter 3 of the Toronto Municipal Code, cannot delete projects from the work plan but may add to it with a two-thirds vote of Council.

The Auditor General's reports on audits and investigations of City divisions, agencies, and corporations are forwarded to the Audit Committee along with a series of recommendations. A management response to each of the recommendations is also forwarded to the Audit Committee. Audit recommendations are considered by the Committee and, once approved, are required to be implemented by management.

The Audit Committee also receives annual follow-up reports from the Auditor General, which provide a status update on all outstanding recommendations.

Making Recommendations to City Council on Reports

The Auditor General's reports generally contain a significant number of recommendations. In most cases, these recommendations are approved by the Audit Committee and forwarded directly to Council. The Committee occasionally makes additional recommendations for submission to City Council.

Annually Reviewing the Auditor General's Accomplishments

As required by Chapter 3 of the Toronto Municipal Code, the Auditor General provides Audit Committee with an annual report outlining the Office's achievements. The report includes an overview of major activities conducted by the Auditor General's Office, and the financial and non-financial benefits resulting from implementation of audit recommendations and operation of the Fraud and Waste Hotline Program.

The Office also provides a separate annual report on the Fraud and Waste Hotline's activities and achievements. Issues of concern identified through the Hotline are reported to the Chair of the Audit Committee and, if significant, are reported to the Audit Committee.

Considering the Auditor General's Annual Budget Request

The Auditor General submits her annual budget request to the Audit Committee for consideration and recommendation to Council in accordance with Chapter 3 of the Toronto Municipal Code. Such a request does not receive scrutiny from management due to the independence of the Auditor General's Office. Once approved by the Audit Committee, the Auditor General's Office budget is submitted to the City's Budget Committee for consideration.

Recommending the Appointment of the City's External Auditor and Considering the Annual External Audit of the Financial Statements

The appointment of the City's external auditor is required under the provisions of Section 139 of the City of Toronto Act, 2006. The City is required to appoint an auditor licensed under the Public Accounting Act, 2004.

The Auditor General provides a report recommending to the Audit Committee the appointment of external auditors for the City and its agencies and corporations, selected on the basis of competitive procurement processes. Currently, PricewaterhouseCoopers (PwC) LLP performs the annual audits of the financial statements of the City and its major agencies and corporations. The five-year contract expires with the completion of the audits of the 2019 financial statements. Welch LLP conducts the financial statement audits for many of the smaller local boards of the City. The five-year contract expires with the completion of the audits of the 2022 financial statements.

While the Auditor General reviews the annual financial statements and meets with the external auditors on a regular basis, the external auditors are independent from the Auditor General's Office and report to Council through the Audit Committee.

PwC presents an annual audit plan for the City's consolidated financial statements to the Audit Committee to provide the Audit Committee with an understanding of the nature and extent of the work that will be conducted with respect to the financial statements. The plan outlines the external auditor's responsibilities, general audit approach, identified areas of audit risk within the City, the timetable for reporting and the scope of work to be conducted.

After the audit is completed, PwC submits a report on the results of the annual audit to the Audit Committee which includes any issues identified during the audit. The auditors provide an independent opinion on whether the financial statements prepared by management are "fairly presented". Their audit provides reasonable assurance that the financial statements are not materially misstated, meaning that any errors or omissions in amounts or other information in the statements are not significant enough to influence the decisions of users of the statements. The financial statements themselves are the responsibility of management and are presented to the Audit Committee by management.

Annual audit plans and audited financial statements for City agencies and corporations are presented to their respective governing bodies for approval. The audited financial statements are then subsequently considered by this Audit Committee.

The Audit Committee should understand and scrutinize the financial statements of the City and its agencies and corporations, question any issues that are unclear, and follow up on matters of concern. Audit Committee members should be conversant with financial reporting in the municipal sector. The Ontario Ministry of Municipal Affairs and Housing has issued a Common Language Guide to Municipal Financial Statements (<http://www.mah.gov.on.ca/Page15026.aspx>), which may help Audit Committee members understand the information provided in the annual financial statements. Members who are not comfortable with their current level of expertise should consider attending a training program.

Recommending the Appointment of an External Auditor of the Auditor General's Office and Considering the External Audit of the Auditor General's Office

Chapter 3 of the Toronto Municipal Code requires that the City's Accountability Officers undergo an annual audit by an external auditor, a practice that began with the Auditor General. As directed by City Council, the City Manager facilitated the request for proposal process and retained Robert Gore and Associates to undertake this work. The current five-year contract ends with the completion of the audit for the year ending December 31, 2018.

This process answers the question of, "who audits the auditor?" and is independent from the Auditor General's Office. The external auditor reports to Council through the Audit Committee.

Every year, the external auditor responsible for the audit of the Auditor General's Office provides a written report to the Audit Committee outlining the results of the audit. It is

the Committee's responsibility to review this report and make appropriate recommendations, if required.

Chapter 3 of the Toronto Municipal Code also 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 is performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA). Review team members meet with the Chair of the Audit Committee and the results issued in a report by ALGA are forwarded by the Auditor General to the Audit Committee for consideration.

CONTACT

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

SIGNATURE

Beverly Romeo-Beehler
Auditor General