

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE**  
*City Manager*

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> June 8, 2011	
<b>SUBJECT/REPORT NO:</b> Auditor General Model (CM11006) (City Wide)	
<b>SUBMITTED BY:</b> Chris Murray City Manager	<b>PREPARED BY:</b> Art Zuidema x 5639 Ann Pekaruk x 4469
<b>SIGNATURE:</b>	Lisa Zinkewich x 2297

**RECOMMENDATION**

- (a) That Report CM11006 respecting the Auditor General Model, be received;
- (b) That the establishment of a separate Auditor General Office not be pursued;
- (c) That the current role of Internal Audit Services be expanded for a three year pilot, to include value for money audits;
- (d) That the Internal Auditor prepare a recommendation report for the review and approval of Council including an implementation strategy and a draft workplan for the first pilot year;
- (e) That the current staff complement in Audit Services be increased by 2 FTE's to accommodate value for money audits as part of the 2012 budget process;
- (f) That any savings achieved, as a result of measures identified by Audit Services, be transferred back into the general levy;
- (g) That the Item on the Audit, Finance & Administration Committee's Outstanding Business List, respecting the Feasibility of the Creation of an Auditor General Position, be considered complete and removed from the Outstanding Business List.

**EXECUTIVE SUMMARY**

The following motion was passed at the February 3, 2010 meeting of the Audit and Administration Committee:

“That staff be directed to report back to the Audit and Administration Committee respecting the creation of an Auditor General position and investigate other jurisdictions relative to the efficiencies and the responsibilities of such a position.”

This report reviews the role of audit in Ontario and other Canadian municipalities and outlines a preferred Audit model for Hamilton.

In Ontario, a specific audit model is not prescribed by legislation, although the Municipal Act, 2001 section 296 requires all municipalities to be subject to external audits. Sections 223.19 to 223.23 inclusive (Appendix A) allows municipalities to pass bylaws to establish an Auditor General to assist “Council in holding itself and its administrators accountable for the quality of stewardship over public funds”. With the exception of Toronto, where an Auditor General is mandated under the Toronto Act, 2006, municipalities in Ontario either have an Auditor General or Internal Auditor. Toronto is the only Ontario municipality to have both, although there is no legislated requirement for an Internal Auditor in any Ontario municipality. In Ontario and across Canada, most municipalities rely on their Internal Auditor to determine the efficiency and effectiveness of services.

Appendix “B” provides a comparison of Ontario municipalities with an Auditor General against the current roles and responsibilities of Hamilton’s Audit Services Division (Internal Audit). In most cases, the mandates, responsibilities and duties are the same, whereas, the reporting structure varies from committees of Council to directly to Council. Term of appointment, staff complement and budget dollars also vary considerably among the comparators.

A significant role of an Auditor General (AG) is to conduct value for money (VFM) audits. These audits generally are defined as compliance and operational reviews combined with a component to assess whether or not the City has obtained benefit from the goods and services it acquires and provides.

Staff is recommending a hybrid model (Alternative 1) in which a VFM auditing component is rolled into Internal Audit’s scope of work. The recommended three year pilot would be of adequate duration to assess this model and the results of VFM audits.

***Alternatives for Consideration – See Page 8***

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

**Financial:** Should Council accept the recommendation to add VFM auditing component into Internal Audit's scope of work, additional funding for staffing and related expenditures would be required. At this time, such costs are difficult to estimate but would be presented in an implementation report. They are expected to be less than \$400,000.

Costs may be offset to the extent that savings are identified and quantifiable.

**Staffing:** It is suggested that at least two (2) staff be initially added to carry out the VFM auditing program.

**Legal:** N/A

**HISTORICAL BACKGROUND** (Chronology of events)

The following motion was passed at the February 3, 2010 meeting of the Audit and Administration Committee:

“That staff be directed to report back to the Audit and Administration Committee respecting the creation of an Auditor General position and investigate other jurisdictions relative to the efficiencies and the responsibilities of such a position.”

**POLICY IMPLICATIONS**

N/A

**RELEVANT CONSULTATION**

In order to review the various audit models in place across Ontario, a number of municipalities were contacted. Municipalities contacted that have an Auditor General include: Toronto, Oshawa, Markham, Windsor, Sudbury and Ottawa. Municipalities contacted that do not have an Auditor General, but that have an Internal Audit section include: York, Mississauga, Brampton and Kingston. The City of London was contacted to discuss their outsourced auditing model.

In order to compare Ontario audit models in a national context, Calgary and Edmonton (Alberta) Winnipeg (Manitoba), Halifax (Nova Scotia) and Vancouver (British Columbia) were also contacted. (Appendix C summarizes Canadian municipal audit models, outside of Ontario.)

Internally, City of Hamilton staff from the City Manager's Office, Internal Audit and Legal Services, were also consulted.

Appendix B provides a comparison of the Municipalities with an Auditor General in Ontario against the current roles and responsibilities of Hamilton's Audit Services Division (Internal Audit).

### **ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Accountability and transparency are two governance principles that have clearly been identified as important for this Council. This has been done through the original motion for this report, 2011 budget deliberations, approval of the Senior Management Team 2011 Work Plan and through discussions with staff. One way to achieve this accountability and transparency is through various audit functions. (Appendix "D", from the City of Windsor, helps to differentiate between categories of audits)

The federal government has an Auditor General appointed by legislation and each province/territory in Canada also has, by legislation, a provincial Auditor General who has a mandate to conduct financial compliance and VFM audits on how budgeted funds are expended. Each provincial Auditor General has the legal mandate to audit any funds that are transferred down to a lower level of government such as a regional or municipal government.

In Ontario, the Municipal Act, 2001 (Appendix A) allows for various audit functions. These audit functions are summarized below.

#### **External Audit**

Under the Municipal Act, 2001, all municipalities are subject to attest audits (external financial statement audits). Attest Audits provide an independent opinion of the municipality's financial statements in regards to their fairness and dependability. The reference to auditor, in this case, is the external auditor, a public accounting firm retained through a competitive process. Subsection 223.19(2) of the Municipal Act, 2001, prohibits the Auditor General from being the City's external auditor. The function of an AG differs from that of the external auditor as external auditing focuses on the fairness and completeness of the financial statements.

#### **Internal Audit**

There is no legislated requirement for an Internal Auditor within the Municipal Act 2001. An internal audit is primarily a review of compliance with policy and procedure based on risk. In addition, an Internal Auditor's duties may include the ability to undertake value for money audits, to determine the efficiency and effectiveness of services. The level of

responsibility of the Internal Auditor can differ, from municipality to municipality, in regard to the scope of work, as well as reporting structure. In many municipalities, the scope of duties for the Internal Audit function are formally set out and often include a comprehensive statement of purpose, authority, responsibilities and the reporting relationships. This approach can be used to provide a degree of independence to the Internal Audit function.

The City of Hamilton Audit Services Division Internal Audit Charter was approved as part of report AUD11005 and is attached as Appendix E.

### **Auditor General**

The Municipal Act, 2001 allows the municipality to “appoint an Auditor General who reports to Council and is responsible for assisting Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations”. Ontario municipalities have either an Internal Auditor or have appointed an Auditor General by by-law. The only exception to this is in the City of Toronto where there is both an Auditor General and an Internal Auditor. Although there is no legal requirement for an Internal Auditor in Toronto, the City of Toronto Act, 2006 s.177 (1), requires that the City appoint an Auditor General (the only difference between the Acts). For all other Ontario municipalities the decision to appoint an Auditor General is discretionary.

While External and Internal Auditors have no legislated powers, privileges or immunity, the Municipal Act, 2001 confers upon Auditor Generals certain powers, privileges and immunity and imposes certain obligations on audited entities.

### **Similarities and Differences between an Auditor General and Internal Auditor**

The remainder of this section focuses on distinctions between an Auditor General and an Internal Auditor in the context of reporting and tenure, budget and work plans, authority and responsibilities.

### **Reporting and Tenure**

An Internal Auditor typically reports administratively through senior administration and through a standing committee to Council, whereas an Auditor General reports directly to Council, although typically still through a Committee. An Internal Auditor, however, can report directly to Council with respect to function and to the Chief Administrative Officer/City Manager’s Office with respect to administrative purposes only (i.e. York Region).

Internal Auditors are typically permanent employees of the municipality, whereas Auditor Generals are typically fixed-term contract positions. Although there is no

requirement under the Municipal Act, 2001 in regard to the term of appointment, currently they vary from the low of 3 years to a high of 7 years.

### **Budget & Work Plan**

While Subsection 223.19(1.1) requires that an Auditor General perform his or her responsibilities in an independent manner, the size of the budget and the work plan for the Auditor General can be determined by Council. Subsection 223.19(1.1) only requires that an Auditor General perform his or her responsibilities in an independent manner. The process with respect to how a work plan is developed is not prescribed.

The Auditor General work plan is typically determined by the Auditor General and is based on an independent risk assessment. All municipalities that have an Auditor General have, by by-law, set out a process by which Council has the ability to make changes or additions to the Auditor General's work plan. Toronto, Sudbury and Oshawa require a 2/3 majority resolution by Council. Ottawa, Windsor and Markham require a simple majority resolution. This allows Council the opportunity to provide direction, including the ability to make changes or additions without interfering in the Auditor General's ability to set and carry out the work plan with independence.

Similar to practices in municipalities that have an Auditor General, in Hamilton, the work plan for Audit Services is based on an independent risk assessment. Should Council wish to modify the recommended work plan, only a simple majority is required.

The Auditor General's budget is approved directly by Council and does not go through the same administrative process as municipal departments, including Audit Services. In some municipalities, the budget for the Auditor General is based on a percentage of the total of the gross operating budget and is set by by-law. A predetermination of the budget for the Auditor General by by-law ensures independence and allows work to proceed without yearly budget pressures.

### **Authority**

Due to the existing permissive nature of the Act, the powers of the Auditor General aren't incredibly different from the powers of an Internal Auditor. The prescribed independence of the Auditor General (Subsection 223.19(1.1)) is the significant difference between the Auditor General and the Internal Auditor. As can be seen in Appendix "B", the mandates for all of the municipalities that have AG offices are virtually identical. The scope of work includes city departments and divisions as well as boards, agencies and commissions, where applicable.

Although the Act provides an Auditor General with additional tools to complete their assignments, Internal Auditors are able to conduct most, if not all, of the same work as an Auditor General under the general powers granted to municipalities by the *Municipal Act*. The City of Hamilton could continue to operate under its current structure and

undertake much of the same work as an Auditor General. Alternatively, Hamilton could also choose to pass a by-law to establish an Auditor General or if Council was so inclined, it could also choose to designate the Internal Auditor as the Auditor General. All of these options would result in similar authorities.

Internal auditing typically focuses mainly on the control environment and compliance reviews. The AG does principally value for money (performance) auditing (on the average, 50% of the effort) but may also include compliance or financial control reviews. Internal auditors are not precluded from carrying out value for money audits. The current structure, roles and responsibilities of the City of Hamilton Audit Services are included in Appendix F to this report.

Although the powers are not commonly used, should Hamilton's Audit Services Internal Auditor be designated an Auditor General, they would gain:

- the application of the Public Inquiries Act (power to summon a witness) to any examination (223.21);
- the protection with respect to confidentiality (223.22);
- the protection with respect to a civil proceeding (223.23); and
- the guarantee of no waiver of solicitor-client privilege, litigation privilege or settlement privilege when disclosure is made (223.30).

Alternatively, the Act does not preclude a municipality from outsourcing the authority of an Auditor General function to a private firm. Although there are no known examples of an Ontario municipality doing so, there are no legal restrictions preventing it. There is no contractual difference between a contract with a firm and a contract with an individual Auditor General, though a contract with a firm may be seen as having more independence since no particular individual depends on the contract fee as a sole source of income.

## **Responsibilities**

Internal auditing has traditionally focused mainly on the control environment and compliance reviews. The Auditor General principally does value for money auditing but also undertakes compliance or financial control reviews. Internal auditors however are not precluded from carrying out value for money audits.

Value for Money (VFM) auditing (performance, efficiency and control) examines activities for efficiency and effectiveness. VFM auditing can be undertaken by both an Auditor General or Internal Auditor. However, this is currently not done by Hamilton Audit Services as part of their current mandate (special request only i.e. Licensing in 2006). Should VFM audits be undertaken, matters related to the adequacy of management systems, controls and practices to safeguard assets, the extent to which resources have been managed with due regard to economy and efficiency and the

extent to which programs, operations or activities have been effective can individually or collectively be included in the scope.

In order to undertake VFM audits (performance) an organizational performance measurement system is required to be in place. To support full VFM auditing, an administration requires a consistent and organizational-wide approach to reviewing its services and performance. Such an approach allows an organization to review all services for their outcomes, the use of resources and the value the services bring to citizens. Without this, VFM performance audits are difficult to undertake.

The City of Hamilton is on the cusp of developing a process for establishing the value in all its services. VFM (performance) audits on City services will be enhanced when the value of each service has been documented and measured. The service delivery strategy, identified as a priority in the Senior Management Team 2011 Work Plan, is a means through which a performance measurement process will be developed and undertaken.

#### **ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

1. Enhanced Internal Auditor (Hybrid) - **RECOMMENDED**

In this hybrid model, a value for money auditing component is rolled into Internal Audit as a combined function for a three year pilot. Control and compliance audits as well as value for money audits are included in the work plan and the results reported to Council through the Audit and Administration Committee. An implementation strategy and a draft workplan for the first pilot year will be prepared by the Internal Auditor.

In order for the additional responsibilities to be undertaken the current staff complement in the Audit Services Division is required to be increased by 2 FTE's.

It is recommended that any savings achieved, as a result of measures identified by the Audit Services Division, be transferred into the general levy.

This alternative can be "piloted" to determine the overall effectiveness of this model based on cost, resources and results.

This alternative will provide the best balance between the achievement of value for money in City operations and the fiscal constraints of financial resources.



2. Implement a Separate Auditor General – **NOT RECOMMENDED.**

If Council chooses to establish a separate, independent position of an Auditor General, decisions would have to be made concerning whether the Auditor General would be hired as an employee of the City or on a fixed term contract. Other decisions would be required in regard to the organizational structure of the office (including the role and function of Hamilton's current Audit Services), requisite staffing and budget. Research has indicated that some municipalities have typically set the budget of an Auditor General in line with a percentage of the total gross operating budget ranging from 0.046% in Toronto to 0.209% in Oshawa. Should Council decide to establish an Auditor General, incremental costs could run upwards from \$400,000 (based on approximately .07% of the operating budget as a minimum standard).

This model is viewed to be more costly than the hybrid model.

If one of the Auditor General models is preferred, including the model that would appoint the existing Internal Auditor as the Auditor General, a by-law would be required.

This model is viewed to provide Council with the greatest opportunity for perceived independence and a direct line of accountability to Council.

3. Combining the roles of an Auditor General and Integrity Commissioner – **NOT RECOMMENDED.**

Staff is not aware of any municipality that has combined the role of Auditor General with the role of Integrity Commissioner. The two positions require different and specialized skill sets. Should these roles be combined, the individual hired would likely need to delegate (and resource) expertise in dealing with their responsibilities.

Similar to Alternative 2, should this alternative be selected, decisions would have to be made concerning whether the Auditor General would be hired as an employee of the City or on a fixed term contract. Other decisions would be required in regard to the organizational structure of the office, requisite staffing and budget.

4. Shared Auditor General service with another municipality/municipalities - **NOT RECOMMENDED.**

In this model the City of Hamilton would approach another municipality or municipalities for the purpose of putting together a joint request for proposal (RFP) process for the services of an Auditor General. This arrangement is considered to be more complex than keeping the Auditor General function in-house or contracting externally. Staff are not aware of any examples where municipalities have chosen this option. This option could restrict the City in the terms of the contract content in order to satisfy all municipalities involved.

5. Status Quo Leave things the way they are currently – **NOT RECOMMENDED.**

This alternative is not recommended if Council wish to have value for money audits. Under this alternative, while there would not be any value for money auditing. There would be no additional costs as Internal Audit would continue to perform in the present fashion.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

***Financial Sustainability***

- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**APPENDICES / SCHEDULES**

Appendix A to Report CM11006: Municipal Act, 2001, section 223.19 to 223.23 inclusive

Appendix B to Report CM11006: Comparison of Auditor General models with Hamilton's Internal Audit (IA)

Appendix C to Report CM11006: Summary of Canadian Municipality (outside of Ontario) Audit Models

Appendix D to Report CM11006: Excerpt taken from the City of Windsor's AGO Work Plan (differentiates various categories of audits).

Appendix E to Report CM11006: City of Hamilton, Audit Services Internal Audit Charter

Appendix F to Report CM11006: Current Structure, Roles and Responsibilities – City of Hamilton, Audit Services

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**Appendix A - Municipal Act, 2001, section 223.19 to 223.23 inclusive**

**Auditor General**

**223.19 (1)** Without limiting sections 9, 10 and 11, those sections authorize the municipality to appoint an Auditor General who reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations. 2006, c. 32, Sched. A, s. 98.

**Same**

**(1.1)** The Auditor General shall perform his or her responsibilities under this Part in an independent manner. 2009, c. 33, Sched. 21, s. 6 (11).

**Exceptions**

**(2)** Despite subsection (1), the responsibilities of the Auditor General shall not include the matters described in clauses 296 (1) (a) and (b) for which the municipal auditor is responsible. 2006, c. 32, Sched. A, s. 98.

**Powers and duties**

**(3)** Subject to this Part, in carrying out his or her responsibilities, the Auditor General may exercise the powers and shall perform the duties as may be assigned to him or her by the municipality in respect of the municipality, its local boards and such municipally-controlled corporations and grant recipients as the municipality may specify. 2006, c. 32, Sched. A, s. 98.

**Grant recipients**

**(4)** The authority of the Auditor General to exercise powers and perform duties under this Part in relation to a grant recipient applies only in respect of grants received by the grant recipient directly or indirectly from the municipality, a local board or a municipally-controlled corporation after the date on which this section comes into force. 2006, c. 32, Sched. A, s. 98.

**Delegation**

**(5)** The Auditor General may delegate in writing to any person, other than a member of council, any of the Auditor General's powers and duties under this Part. 2006, c. 32, Sched. A, s. 98.

**Same**

**(6)** The Auditor General may continue to exercise the delegated powers and duties, despite the delegation. 2006, c. 32, Sched. A, s. 98.

**Status**

**(7)** The Auditor General is not required to be a municipal employee. 2006, c. 32, Sched. A, s. 98.

### **Duty to furnish information**

**223.20 (1)** The municipality, its local boards and the municipally-controlled corporations and grant recipients referred to in subsection 223.19 (3) shall give the Auditor General such information regarding their powers, duties, activities, organization, financial transactions and methods of business as the Auditor General believes to be necessary to perform his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.

### **Access to records**

**(2)** The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality, the local board, the municipally-controlled corporation or the grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.

### **No waiver of privilege**

**(3)** A disclosure to the Auditor General under subsection (1) or (2) does not constitute a waiver of solicitor-client privilege, litigation privilege or settlement privilege. 2006, c. 32, Sched. A, s. 98.

### **Powers re examination**

**223.21 (1)** The Auditor General may examine any person on oath on any matter pertinent to an audit or examination under this Part. 2006, c. 32, Sched. A, s. 98.

### **Same**

**(2)** For the purpose of an examination, the Auditor General has the powers that Part II of the *Public Inquiries Act* confers on a commission, and that Part applies to the examination as if it were an inquiry under that Act. 2006, c. 32, Sched. A, s. 98.

**Note: On a day to be named by proclamation of the Lieutenant Governor, subsection (2) is repealed and the following substituted:**

### **Application of *Public Inquiries Act, 2009***

**(2)** Section 33 of the *Public Inquiries Act, 2009* applies to an examination by the Auditor General. 2009, c. 33, Sched. 6, s. 72 (3).

**See: 2009, c. 33, Sched. 6, ss. 72 (3), 92.**

### **Duty of confidentiality**

**223.22 (1)** The Auditor General and every person acting under the instructions of the Auditor General shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her duties under this Part. 2006, c. 32, Sched. A, s. 98.

**Same**

(2) Subject to subsection (3), the persons required to preserve secrecy under subsection (1) shall not communicate information to another person in respect of any matter described in subsection (1) except as may be required,

(a) in connection with the administration of this Part, including reports made by the Auditor General, or with any proceedings under this Part; or

(b) under the *Criminal Code* (Canada). 2006, c. 32, Sched. A, s. 98.

**Same**

(3) A person required to preserve secrecy under subsection (1) shall not disclose any information or document disclosed to the Auditor General under section 223.20 that is subject to solicitor-client privilege, litigation privilege or settlement privilege unless the person has the consent of each holder of the privilege. 2006, c. 32, Sched. A, s. 98.

**Section prevails**

(4) This section prevails over the *Municipal Freedom of Information and Protection of Privacy Act*. 2006, c. 32, Sched. A, s. 98.

**Testimony**

**223.23** Neither the Auditor General nor any person acting under the instructions of the Auditor General is a competent or compellable witness in a civil proceeding in connection with anything done under this Part. 2006, c. 32, Sched. A, s. 98.

**Appendix B**  
**Comparison of Auditor General models with Hamilton’s Internal Audit (IA)**  
(√ - have/undertake, x – don’t have/don’t undertake)

	Hamilton (Audit Services)	Toronto	Ottawa	Windsor	Markham	Sudbury	Oshawa
<b>Auditor General</b>	x	√	√	√	√	√	√
<b>Integrity Commissioner</b>	√	√	√	√	x	x	√
<b>Internal Audit</b>	√	√	x	x	x	x	x
<b>Performance Measurement Section*</b>	x	√	√	√	√	√	√
<b>Staff in Office</b>	6	24	8	5	1	3	1
<b>Reports directly to Council (C), through Audit (A) or General (G) Committee</b>	A	A	A	A	G	A	C
<b>Budget as % of total gross operating budget (enshrined by By-law in Ottawa and Sudbury)</b>	n/a	0.046	0.070	0.077	0.103	0.065	0.209
<b>Ability of Council to make modifications to work plan</b>	1/2	2/3	1/2	1/2	1/2	2/3	2/3
<b>Cost Savings and Revenue (if available)</b>	n/a	\$97M (5 yrs)	n/a	n/a	n/a	n/a	\$3.02M (4 yrs)
<b>Expenditures (if available)</b>	n/a	\$18.6M (5 yrs)	n/a	n/a	n/a	n/a	\$0.846M (4 yrs)
<b>Responsibilities (of AG’s compared with Hamilton Internal Audit Services)</b>							
<b>Financial</b>	√	√	√	√	√	√	√
<b>Compliance</b>	√	√	√	√	√	√	√
<b>Program/Performance (“Value for Money”)</b>	request	√	√	√	√	√	√
<b>Offices of the Mayor and Members of Council</b>	√	√	√	x	x	√	√
<b>Information Technology Infrastructure Audits (provide assurance regarding controls and security)</b>	√	√	√	√	x	√	√
<b>Forensic</b>	√	√	√	x	x	x	√
<b>Environment</b>	√	√	√	x	x	√	√
<b>Sustainability</b>	√	√	√	x	x	√	√
<b>Liaise with external auditors performing attest audits</b>	x	√	√	x	x	x	√
<b>Fraud &amp; Waste Hotline</b>	n/a	√	√	√	x	x	x
<b>Follow-up on audit recommendation implementation</b>	√	√	x	√	√	x	x
<b>Undertake investigations including expected fraud</b>	√	x	√	x	x	√	x
<b>Effectiveness of risk management, control and governance processes</b>	x	x	x	x	x	x	√

\*Although each organization’s performance measurement section is set up, staffed and called something different, many Municipalities have at least one FTE fully dedicated to Performance Measurement. The City of Hamilton, although involved in performance management does not have one FTE dedicated to this function.

## **Appendix C**

### **Summary of Canadian Municipality (outside of Ontario) Audit Models**

#### Alberta

In Alberta, under authority of the Alberta's Municipal Government Act, both the City of Edmonton and City of Calgary have City Auditor's (not Auditor General's). Once the position has been established through by-law, the City Auditor is appointed by City Council to provide internal audit services. The delegated powers, duties and functions of these positions are established through a City Auditor By-law. In providing services to the corporation, the Office of the City Auditor performs the key roles of guardian and agent of change, are responsible for stewardship over public funds and achievement of value for money.

Based on research, it appears that the Alberta City Auditor model appears to be a de facto Ontario Auditor General model, with full independence from the administration.

#### Manitoba

The City of Winnipeg has a City Auditor/Chief Performance Officer who is a statutory officer appointed by City Council under the City of Winnipeg Charter. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City's Public Service. The City Auditor/Chief Performance Officer conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations.

#### Nova Scotia

The only legislation in Canada, besides the City of Toronto Act 2006, that mandate's the existence of an Auditor General is that of the City of Halifax, through the Halifax Municipal Charter. The role of the Auditor General has been defined as required to provide assistance to Halifax Regional Council in holding itself and the administration accountable for the sound administration of financial accounts and transactions and achieving value for money in the operation of the Municipality.

#### British Columbia

The City of Vancouver currently does not have an Auditor General. They do have an Internal Audit section that reports through the City Manager's Office, however value for money audits are not undertaken.

**Appendix D**  
**Excerpt taken from the City of Windsor’s AGO Work Plan**  
**(differentiates various categories of audits)**

<p><b>Compliance Audit</b> (Lowest resource requirement)</p>	<p>An audit to determine whether or not the City is adhering to specific laws, regulations and its control operations in accordance with City policy, directives, standards or contracts.</p> <p>The purpose is to detect areas of risk and to recommend changes in systems of control, policy and procedures which include the policies, directives, procedures and practices that ensure management objectives are achieved and risk mitigation strategies are carried out.</p>
<p><b>Operational Audit</b> (Medium to high resource requirement)</p>	<p>An audit to determine whether or not public funds and resources have been economically, efficiently and effectively managed. This type of audit examines and reports on matters related to:</p> <ul style="list-style-type: none"> <li>• The adequacy of the management systems, controls and practices intended to control and safeguard assets and that ensure due regard to economy, efficiency and effectiveness;</li> <li>• The extent to which resources have been managed with due regard to economy and efficiency; and</li> <li>• The extent to which programs, operations or activities of any entity have been effective.</li> </ul>
<p><b>Performance Audit</b> (Highest resource requirement)</p>	<p>Value for money audit. A compliance and operational review with a component to assess whether or not the City has obtained benefit from the goods and services it both acquires and provides.</p> <p>This type of audit usually reports on performance objectives that assess whether:</p> <ul style="list-style-type: none"> <li>• Programs, functions or activities are achieving desired results.</li> <li>• There are appropriate indicators and measures to assess performance.</li> <li>• There are better ways to achieve objectives at lower cost.</li> <li>• There are ways to improve the quality of service without increasing cost.</li> </ul>



**Appendix E**  
**CITY OF HAMILTON**  
**AUDIT SERVICES**  
**INTERNAL AUDIT CHARTER**

**INTRODUCTION**

Audit Services provides independent, objective assurance and consulting services designed to add value and improve the City of Hamilton's operations. Audit Services brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

**SCOPE**

The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management process, system of internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the organization's goals and objectives. The City's processes should function in a manner to help ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and are adequately protected.
- Programs, plans and objectives are achieved.
- Significant legislative and regulatory issues impacting the City are recognized and addressed properly.
- Quality and continuous improvement are fostered in the organization's control processes.

**CONSULTING**

In addition to audit engagements, staff of Audit Services may provide advisory or other consulting services, as appropriate, or at the request of Council or senior management. These types of services may include:

- Conducting special projects, reviews or investigations;
- Performing research;
- Providing training on audit related topics such as risk assessment and internal controls; or
- Providing counsel or advice (e.g. on the adequacy of draft procedures).

### AUTHORITY

Internal Auditors are granted full, free and unrestricted access to any and all records, property and personnel relevant to any function under review. This access is provided under *The Protection of Privacy Act – Municipal Freedom of Information* (in particular, Sections 31(c) and 32(d)). All employees shall assist Audit Services in fulfilling their objectives.

Audit Services has the authority to conduct audits and reviews of all City departments, agencies, boards and commissions, as well as other entities the City is related to or has an interest in.

### INDEPENDENCE

Independence is an essential component to building public trust and preserving objectivity and integrity associated with the audit function.

To provide for the independence of the Audit Services division, its personnel report to the Director of Audit Services, who reports administratively to the City Manager and functionally to the Audit, Finance and Administration Committee of Council. Audit and review reports are sent directly to the Audit, Finance and Administration Committee for discussion and approval and then to Council. These reporting relationships help ensure independence, promote comprehensive audit objectivity and coverage and assure adequate consideration of audit recommendations.

All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in rendering reports.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited.

### RESPONSIBILITIES

The Director of Audit Services and the staff of the Audit Services division have the responsibility to:

- Review operations within the City at appropriate intervals to determine whether planning, organizing, directing and controlling are in accordance with management instructions, policies and procedures and in a manner that is consistent with both City objectives and high standards of administrative practice.
- Determine the adequacy and effectiveness of the systems of internal accounting, financial and operating controls.

- Review the reliability, utility and integrity of financial information and the means used to identify, measure, classify and report such information.
- Review the established systems to ensure compliance with those policies, plans, procedures, laws and regulations which would have a significant impact on operations and reports and determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Report to those members of management who should be informed or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.
- Evaluate any plans or actions taken to correct reported conditions and provide timely follow-up to ensure satisfactory disposition of audit findings in the manner and timeframe committed to by management in the original audit report. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.
- Develop a flexible annual audit plan, including any risks or control concerns identified by management or other audits as well as appropriate special tasks or projects requested by management.
- Undertake investigations or refer issues to other appropriate parties as a result of disclosures under the Whistleblower By-law.
- Maintain a professional audit staff with sufficient knowledge, skills and experience.

#### AUDIT PLANNING

Each year, the Director of Audit Services shall prepare a work plan, setting out the proposed schedule of audits and other undertakings proposed for the coming year. In order to generate this plan, the following sources are considered:

- Prioritization of the audit universe using a risk-based methodology;
- Requests from Councillors, senior management and staff;
- Any audits planned for the past year but delayed or not completed; and
- Any conditions or concerns discovered or communicated throughout the past year.

The annual work plan is presented to the Audit, Finance and Administration Committee for approval.

### REPORTING

A written report is prepared and issued by the Director of Audit Services following the conclusion of each audit. The report will include management's responses and the corrective action plans for specific findings and recommendations. Management's response will include a statement of general agreement or disagreement with the stated findings and recommendations as well as a timeframe for anticipated completion of action to be taken and an explanation for any recommendation not addressed.

Audit Services is responsible for appropriate follow up on audit findings and recommendations. All significant findings will remain open until the Director of Audit Services has determined management has appropriately taken action to resolve the finding.

All audit reports / follow up reports are presented to the Audit, Finance and Administration Committee.

### PROFESSIONAL STANDARDS

Audit Services will be guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

**Appendix F**  
**Current Structure, Roles and Responsibilities**  
**- City of Hamilton, Audit Services**

Audit responsibilities for the City of Hamilton reside in Audit Services, under the City Manager's Office. The current FTE complement is six (Director, Supervisor, Senior Internal Auditor, Intermediate Internal Auditor [2] and an Administration Assistant) and had a net budget in 2011 of \$660,784. The purpose/function of Audit Services is to provide objective information, advice and assurance to Council, management and staff with respect to controls, operations, performance and accountability in order to ensure compliance with policies and procedures and promote efficiency and effectiveness throughout the organization. Reporting results of audits and reviews to the Audit, Finance and Administration Committee assists Council in the discharge of its control and governance oversight responsibilities.

Audit Services accomplishments in 2010 include:

- Completion of 11 audits and reviews, 13 follow ups; 1 fair wage compliance review and 1 special Council requested investigation, 5 other audits/reviews are currently in progress resulting in a 93% completion rate for the 2010 Council approved work plan
- 202 audit recommendations made to strengthen controls and improve efficiency and effectiveness of operations with a 96% acceptance rate
- 70% audit report implementation rate (full, in progress or alternative implemented) of previous recommendations (based on follow up work carried out 12-18 months after recommendations initially made)
- Use of corporate risk assessment completed by Internal Audit to prioritize audit projects with regard to value added and risk mitigation
- Administration of the Corporate Whistleblower By-law and investigation process