

**Audit Committee**  
**Comité de la vérification**

**Agenda 1**  
**Ordre du jour 1**

**Wednesday, January 26, 2000 - 2:00 p.m.**  
**Le mercredi 26 janvier 2000 - 14 h**

**Guigues Room, Terrace Level**  
**Bytown Pavilion, City Hall**

**Salle Guigues, Niveau Terrasse**  
**Pavillon Bytown, hôtel de ville**



**Confirmation of Minutes  
Ratification des procès-verbaux**

Minutes 7 (November 24, 1999)  
In-Camera Minutes 5 (November 24, 1999)

Procès-verbal 7 (Le 24 novembre 1999)  
Procès-verbal 5 huis clos (Le 24 novembre 1999)

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### **Information Items Articles pour information**

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| 1. | <b>1999 External Audit Plan<br/>Plan de vérification externe 1999</b> | <b>1</b>         |
|    | Ref.: ACS2000-FN-FLM-0001   | <b>City Wide</b> |

### **Action Items Articles pour exécution**

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| 2. | <b>Reporting on Performance to City Council<br/>Rapport de rendement au Conseil municipal</b> | <b>3</b>         |
|    | Ref.: ACS2000-AU-AUD-0001   | <b>City Wide</b> |

### **Municipal Government Reform Réforme du gouvernement municipal**

### **External Relations Matters Questions de relations extérieures**

### **Members' Reports - Enquiries Rapports des membres - demandes de renseignements**

Councillor/Conseiller Ron Kolbus, Chairperson/Président

Councillor/Conseiller Brian Mackey, Vice-Chairperson/Vice-président

Councillor/Conseiller Jim Bickford

Mayor/Maire Jim Watson

SEF

January 13, 2000

ACS2000-FN-FLM-0001  
(File: CMR2000/0110)

Department of Finance

Ward/Quartier  
City Wide

- Audit Committee / Comité de la vérification

Information

## **1. 1999 External Audit Plan Plan de vérification externe 1999**

### **Information**

Document 1 is the External Audit Plan for the financial statements for the year ending December 31, 1999. (Distributed Separately and On File with the City Clerk).

The proposed audit plan is before Committee to provide members the opportunity to discuss the plan with management and the external auditors. The plan outlines the scope of the work to be undertaken and the audit approach. The document also discusses particular issues of audit significance which include the following:

- Tax Revenues
- Systems Under Development
- Amalgamation
- Accounting for Life Sciences Technology Park
- Stores Inventory

Audit Committee guidelines include the requirement for meetings with the External Auditor during the annual audit cycle. The first of these meetings is the planning meeting. The guidelines identify the following direction regarding this planning meeting:

The first meeting focuses on reviewing the auditors' engagement letter and audit plan, in order to:

- Provide the Auditor the opportunity to present:  
proposed scope of audit work;  
criteria for determining materiality;  
areas to which he or she intends to give particular attention;  
any anticipated areas of difficulty with upcoming audit;  
any changes in approach; and  
any change in prescribed duties.
- Provide the Audit Committee with the opportunity to apprise the Auditor of any areas of concern that the Committee would like him or her to address during the audit, and discuss any additional fees this may involve.



January 13, 2000 (3:30p)

Mona Monkman  
City Treasurer

GWS:cds

Contact: Mona Monkman - 244-5300 ext. 1-3889  
Geoff Simpson - 244-5300 ext. 1-3685

### **List of Supporting Documentation**

Document 1    Fiscal 1999 Audit Planning Memorandum (Distributed Separately and On File with the City Clerk)

January 14, 2000

ACS2000-AU-AUD-0001  
(File: CMH1999-03)

Office of the City Auditor

Ward/Quartier  
City Wide

- Audit Committee / Comité de la vérification
- City Council / Conseil municipal

Action/Exécution

## **2. Reporting on Performance to City Council**

### **Rapport de rendement au Conseil municipal**

#### **Recommendations**

- 1 That the report by consultants KPMG entitled "Reporting on Performance to City Council," Document 2, be received, and its recommendations addressing the need for systematic information on performance to support Council's governance role be accepted.
- 2
  - a That the report be forwarded to the Transition Board;
  - b That City Council request that the Transition Board ensure, in designing the structure and processes for the new City of Ottawa, that the capacity to support systematic reporting to City Council on performance is accommodated along the lines recommended in the KPMG report.
- 3 That the report's recommendations on Program Based Performance Reporting be initiated in 2000, through pilot implementations for selected key programs with the objectives of testing and validating the approach proposed by KPMG and expanding corporate expertise and experience in performance measurement and reporting.



January 14, 2000 (12:06p)

Peter O'Callaghan  
City Auditor



January 17, 2000 (1:54p)

John Burke  
Chief Administrative Officer  
Office of the Chief Administrative Officer

PO:po

Contact: Dev Loyola-Nazareth - 244-5300 ext. 1-3876

## Financial Comment

Existing staff resources are available in the Department of Corporate Services for the pilot implementation of the performance system, at no additional cost to the City.



January 17, 2000 (1:17p)

for Mona Monkman  
City Treasurer

BH:cds

## Executive Report

### Reasons Behind Recommendations

In February 1999, City Council approved the retention of KPMG to provide guidance and recommendations on improving the quality of performance information it obtains and uses.

This study flowed out of the Audit Committee's revised mandate which includes the responsibility of making recommendations concerning adequate and appropriate information for the purposes of supporting decision making and ensuring objectives are met and performance is satisfactory. The study addresses one part of that broad responsibility - performance information and performance reporting.

The Executive Summary from the KPMG report is attached as Document 1. The full report has been circulated in advance.

### Recommendation 1

The report by KPMG, provides independent, external advice and recommendations on the nature and quality of information that City Council can and should expect in support of its governance obligations of ensuring good performance, on the means of obtaining this information, and on the strategies it should put in place to bring about improvement.

For this report, KPMG reviewed:

- . the nature and scope of information that Council needs to be provided with on a systematic basis
  - . to monitor strategic initiatives and objectives;
  - . to assess the effectiveness and efficiency of program delivery;
  - . to oversee resource and financial management issues; and
  - . to be assured that its policies and directions are being implemented.

- . the adequacy of the quality, nature, format, and frequency of the performance information currently provided to Council, and
- . the strategies that will enable the City to improve its ability to obtain and use performance information.

In carrying out its study, KPMG analyzed best practices in performance reporting in several countries and reviewed the underlying models to arrive at a best fit for Ottawa.

The report recommends a much stronger and more comprehensive regime of performance reporting to Council than presently exists. It recommends different approaches to reporting on strategic matters and program performance. The report supports its recommendations with detailed descriptions of the models to be used for establishing each level of reporting; the selection of the programs to be reported; the potential data sources (internal financial and operating data, internal user and staff surveys, internal and external benchmarks, and external user and citizen surveys); the selection of performance measures; the type, format, and frequency of reports; the roles and responsibilities for performance measurement and reporting; the resource requirements; as well as templates for potential measures for key programs.

For program reporting, KPMG recommend the adoption of the Canadian Comprehensive Audit Foundation's (CCAF) Framework for Reporting on Effectiveness. The Framework was developed to help public sector governing bodies form judgments about the effectiveness of their organizations' programs. It has been used by governments of Quebec, Manitoba, and British Columbia for a variety of programs including parks and museums. It has the virtue of being adaptable to meet the specific needs of a municipal organization such as the City of Ottawa.

Importantly, while the focus of the review was on the information requirements of Council, a fundamental criterion was that the information be useful also to the City's administration in the achievement of its goals of providing good management and maintaining constructive relationships with City Council and its Committees. This criterion has been addressed directly and the recommended reporting structures and mechanisms can be utilized as an integral part of the larger Integrated Strategic Business Planning Cycle (ISBPC) that has been under development. The ISBPC initiative is designed to provide concrete linkages among strategic plans, corporate and departmental business plans, the budget and performance agreements for key staff. Performance reporting will be an important feedback mechanism in this cycle.

## **Recommendation 2**

At the time this report was commissioned, municipal governance was thought to be on the back burner and it was sensible to proceed with the objective of improving performance reporting in this organization. Events, however, have overtaken this.

## 6

However, the report deals with fundamental issues - the kind and nature of information that a Council needs to support its governance obligation of ensuring good performance, the means of obtaining this information and the structures that need to be put in place to make sure that this information is provided in a systematic way to Council.

These issues will be just as important, if not more so, for the larger and more complex organization that will be the new City of Ottawa. And the report provides research, analysis and recommendations that will be of value to the Transition Board.

Moreover, it is important that the concepts of information for accountability and governance and performance based management are integral to the design of the structure and processes of the new City. For these reasons, it is recommended that the KPMG report be forwarded to the Transition Board with this Council's recommendation that the capacity to support systematic performance reporting is accommodated in the design of the new City.

### **Recommendation 3**

Management Committee recognizes that the principles and directions set out by KPMG should be pursued and that the report should not be shelved despite upcoming restructuring. There is a need to build further expertise and experience in performance measurement and reporting within services and to test and modify the processes recommended by KPMG.

Consequently, Management Committee agreed that it should proceed in 2000 with a number of pilot projects at the program level. Potential areas for the development of performance information are Fire Services, Building Permit Services and Client Services, with the final determination on these to be made by Management Committee after some preliminary study. Areas for pilot implementation should be important municipal services and with both internal and public dimensions. Working such pilots through on the basis of the KPMG proposed approach will undoubtedly strengthen internal capacity and hopefully provide valuable information for the restructuring process.

The Commissioner of Corporate Services has agreed to identify and provide resources to lead this initiative and work with the relevant departments in carrying it through.

### **Consultation**

The report and its recommendations were reviewed by Management Committee at its meeting of January 4, 2000. As mentioned above, Management Committee would like to proceed with this initiative in 2000 by way of pilot implementations of the performance system for selected key programs. It was agreed that resources for the pilots would be found in the Department of Corporate Services. In addition, the Committee supported the recommendation that the report be forwarded to the Transition Board as it will be a good tool for the new organization.

## **Disposition**

Management Committee to implement upon approval.

## **List of Supporting Documentation**

- |            |  |
|------------|--|
| Document 1 | Executive Summary, Reporting on Performance to City Council (KPMG)                                       |
| Document 2 | Reporting on Performance to City Council (KPMG) (Distributed separately and on file with the City Clerk) |

## Part II - Supporting Documentation

Document 1

### *KPMG Report - Reporting on Performance to City Council*

#### EXECUTIVE SUMMARY

The City of Ottawa retained KPMG “to provide City Council with advice and recommendations on the nature and quality of information that it can and should expect in support of its governance obligation of ensuring good performance, on the means of obtaining this information, and on the strategies it should put in place to bring about improvement”.

#### **A Background**

Governance is the exercise of authority, direction and control. The primary focus of governance should be on the long term—the organization’s mission, values, policies, goals and objectives. Management is responsible for carrying out goals and objectives and for reporting back to the governing body—in this case City Council—on how well it has carried out its obligations and the directions received from Council.

Our review of best practices indicates that there are two types of performance reporting that are prevalent in the municipal sector—reporting on program performance and reporting on progress in achieving broader strategic priorities and objectives. The former is more common and relatively easier to do. When we interviewed Ottawa City Councillors as part of this study, their focus was on program performance. Councillors wanted to know whether:

- . The goals and objectives set for a program were being met.
- . City residents were satisfied with the programs that were being delivered
- . What the costs of programs were and whether they could be delivered more efficiently.

#### **B Current program performance information**

Council currently does receive information on the performance of programs. Unfortunately, current reporting tends to be concerned with “counting things” (i.e., showing workloads and outputs). The result is a large amount of data on highly specific activities and a very limited picture of more fundamental aspects of performance and the value created by the City’s programs. An additional limitation of the current performance reporting is the lack of trend and comparative data. Performance data is most often presented using current period and YTD figures compared to the same period of the previous year.

More extensive trend data and comparisons to similar jurisdictions (if properly carried out) can be useful in determining whether City programs are efficient and effective. Explanatory information (i.e., why the current situation exists and what is being done to respond to any performance gaps) is essential to understanding program performance.

### **C Recommended program performance framework**

Our review of best practices identified three frequently used performance measurement and reporting models:

- . The General Accounting Standards Board (GASB) *Service Efforts and Accomplishments* approach.
- . The *Balanced Scorecard* approach developed by Kaplan and Norton.
- . The CCAF's *Framework for Reporting on Effectiveness*.

There are similarities among all frameworks used by municipalities:

- . All are used as a reporting tool for informing Councillors and senior management on how well the organization is performing.
- . All help to clarify objectives and priorities (whether at the program or strategic level).
- . All focus on measuring economy, efficiency and effectiveness.
- . All rely on multiple sources of performance information.

The GASB *Service Efforts and Accomplishments* is intended primarily to assess accountability and better inform decision-making. The *Balanced Scorecard* approach has a private sector orientation and requires linkages with the organization's vision and strategic objectives.

The CCAF *Framework for Reporting on Effectiveness* was designed for the public sector and is not reliant on the organization establishing a vision or strategic objectives. It can be applied at the program level as long as program objectives are clearly enunciated. Applied at the most basic level the CCAF Framework can be used to report on the performance of individual programs. At a more refined level, the Framework can be used to help Council make informed decisions, particularly about the allocation of resources between programs.

## Recommendation

KPMG recommends that the City of Ottawa adopt the CCAF Framework for application at the program level.

## D Application of the CCAF Framework

The CCAF Framework consists of 12 attributes—each of which provides information on different aspects of effectiveness. The attributes are defined in the following Exhibit.

### Exhibit 1—Attributes of Effectiveness Three Year Review / Annual Reporting

1	<b>Management Direction</b> —Is the overall direction that the program is pursuing reflected in its plans, organization structure, and lines of business? Do employees understand what the program is trying to achieve?
2	<b>Appropriateness</b> —Is the design of the program logical in light of the specific objectives to be achieved? Could the program be delivered in a more cost-effective manner?
3	<b>Responsiveness</b> —Are the appropriate changes to the program being made in response to factors such as markets, demographics, competition, available funding and technology?
4	<b>Secondary Impacts</b> —Are there any significant positive or negative consequences of the program that were not planned?
5	<b>Monitoring and Reporting</b> —Are key matters pertaining to performance reported on? Do those who need the information receive it?
6	<b>Achievement of Intended Results</b> —Are the program’s goals and objectives being achieved?
7	<b>Acceptance</b> —Are constituents or clients for whom a program was designed satisfied with it? Are they using the program? (What is the take-up or participation rate?)
8	<b>Costs and Productivity</b> —What trends are apparent in costs and outputs on an overall and unit basis?
9	<b>Financial Results</b> —Are revenues, costs, assets, and liabilities associated with the program being accounted for?

- 10 **Working Environment** —Is the internal working environment conducive to good performance? Do employees have the right skills and tools to perform their jobs well?
- 11 **Protection of Assets** —Are key assets protected and maintained?
- 12 **Relevance** —Does the program continue to make sense? Have the underlying needs for the program been fully satisfied or changed?

We have divided the attributes into two groups in the Exhibit. The first five attributes provide a broad perspective on the need for, and appropriateness of, programs. Council should expect to receive information on these attributes the first time a program is reported on—using “management assessment” reports—and subsequently every three years.

The remaining seven attributes should be reported on an annual basis at a minimum using “program performance reports”.

Both Councillors and managers must take the time to understand the attributes of effectiveness and the implications inherent in applying them. Quantitative measures for each attribute should be developed and mutually agreed upon. Potentially, each program performance report could draw upon data from internal operating and financial systems, surveys of residents and users, and comparisons to performance targets or standards, and external benchmark comparisons. Department heads and program managers would be expected to lead the preparation and presentation of these two types of reports, with support from a newly-created Performance Measurement Office. Internal Audit would be expected to periodically validate the performance measures and data being used.

Council should also have a say on whether comparative data from other municipalities should be used or whether managers should provide information on their own programs only. Initially, a focus on City programs—with no comparisons to other organizations—may be desirable, given that it will take time to reach agreement with like municipalities on participation and choice of benchmarks.

Reporting on effectiveness means that both positive and negative aspects of a program will be provided to Council. There must be a recognition on the part of Council members that reporting problems is difficult for managers. Accusations or blame will not resolve the issue. A context for the problem and suggestions by managers of what can be done to address it may resolve the issue. An environment of mutual trust and respect is essential if reporting on performance is to be open, useful and the basis for improved decision-making.

### **Recommendation**

KPMG recommends that:

- . The City of Ottawa implement a system of annual program performance reports and triennial management assessment reports for each of its major programs.
- . The program performance and management assessment reports be phased in, over a three year period. Current quarterly accountability reports should be phased out in parallel.

### **E Reporting on strategic performance**

Reporting on the performance of individual programs is important because in most years, at least 80% of resources and staff effort are related to program budgets. However, program performance only tells part of the story. For example, in recent years Council has been faced with a wide variety of more strategic issues including:

- . Negotiating payments in lieu of taxes with the senior level of government.
- . Resolving the deposition of Landsdowne Park.
- . Replacing fire fleet equipment.
- . Dealing with low morale among City employees.

These strategic issues have little to do with the on-going delivery of City programs or services. However, they take up considerable time, effort and resources, have budgetary implications, and are often the means by which the citizens of Ottawa evaluate the performance of elected representatives. Therefore, it is reasonable to assume that Council requires information on the progress that is being achieved against such strategic needs, as well as the many other key initiatives that are being pursued by City staff.

Given this, there is a need for a context for reporting on strategic initiatives and priorities. Normally, this is the corporate strategic plan. The City of Ottawa's Corporate Strategic Plan consists of 7 strategic objectives, 43 desired outcomes and 126 strategic directions. It is not clear from reading the current plan what Council wants to accomplish and where taxpayers can expect them to take action. We note, however, that the City introduced an Integrated Strategic Business Planning Cycle (ISBPC) during 1999 as a means of linking the strategic plan to the annual budget, of aligning departmental work plans with the budget. Reporting on strategic performance will need to be linked to the ISBPC. By providing a feedback loop, the performance reporting system can be used to facilitate the review and refinement of strategic priorities.

With respect to the individual strategic issues that are raised by Council—such as the examples provided above—there is no formal process for reporting back on performance or progress on all key issues. The only report that Council can guarantee receiving is the CAO's Report, which is delivered semi-annually, and provides a commentary on emerging issues and trends. However, it tends to stress positive actions and results, and does not pretend to address all key issues raised by Council members. Its usefulness for strategic reporting is limited.

### **Recommendation**

KPMG recommends that the City of Ottawa adopt a process for establishing strategic priorities and reporting on performance against those priorities thus providing for a more focused strategic plan. The following steps highlight key steps in the process:

- 1 The CAO and his staff should undertake an environmental scan once every three years. The environmental scan would cover the key factors that could influence the delivery of services in the City, and/or that could lead to the identification of issues that would need to be addressed (e.g., changing demographics, economic shifts, technological change, political change, governance trends, etc.).
- 2 The CAO and his staff should speak to individual Councillors and senior staff (e.g., department heads) to obtain their perspectives on various pressures and issues facing the City.
- 3 The CAO should prepare a draft document identifying possible priorities for the City based on the environmental scan as well as the input of department heads, and individual Council members. The document would cover a 3 year period.
- 4 Council would review the document and identify the priorities that it wishes to pursue over that time period. It would also ensure that objectives are clear, that the initiatives identified would contribute to the achievement of objectives, and that indicators of success are measurable.
- 5 Annually, the CAO would report back to Council on progress against priorities.
- 6 At the end of each Council's term, the CAO would report on the overall achievement of strategic priorities and objectives. This in effect would be a summary report that covers all strategic objectives and priorities tackled during the Council's term in office.

KPMG recommends that the CAO's Report in its current format be discontinued and replaced with an annual report on achievements against strategic priorities.

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