

Audit Committee
Comité de la vérification

Agenda 2
Ordre du jour 2

Wednesday, February 23, 2000 - 2:00 p.m.
Le mercredi 23 février 2000 - 14 h

Guigues Room, Terrace Level
Bytown Pavilion, City Hall

Salle Guigues, Niveau Terrasse
Pavillon Bytown, hôtel de vill

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

Minutes 1 (January 26, 2000)

Procès-verbal 1 (Le 26 janvier 2000)

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Ref.: ACS2000-AU-AUD-0002 | 1 |
| | | City Wide |

**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

February 14, 2000

ACS2000-AU-AUD-0002
(File: XAL2000/0300)

Office of the City Auditor

Ward/Quartier
City Wide

- Audit Committee / Comité de la vérification

Information

1. Consideration of an Audit Function for the New City of Ottawa Examen - Fonction de vérification de la nouvelle Ville d'Ottawa

Information

The Audit Committee at its meeting on January 26, 2000 requested the City Auditor to discuss the options for an audit function in the new City of Ottawa, as a basis for making a general recommendation to the Transition Board.

This report briefly summarizes the City's current arrangements and the thinking that led Council to put these in place. It also looks at the kinds of options that need to be analysed in moving to the new City. It does not attempt to analyse these options fully or to make specific recommendations on the design of a future audit function. This will require much more data collection than was possible in the time available and will be done in conjunction with other Ottawa-Carleton municipalities under the auspices of the Transition Board. Notwithstanding, the report does make the case for building a strong accountability and control structure into the new organization.

1. Current Audit Regime at City of Ottawa

The current audit regime at the City was shaped by a series of Council decisions between 1996 and 1998. The decisions redesigned both the Audit Committee and the Office of the City Auditor.

The Audit Committee

The terms of reference of the Audit Committee give it a central role in providing oversight, on behalf of Council, on matters relating to financial reporting, auditing, internal control and corporate governance.

Its objectives are to help Council:

- ▶ meet its responsibilities of protecting municipal assets and managing operations as efficiently as possible;
- ▶ ensure a high level of accountability over the use of public funds;
- ▶ ensure compliance with laws, regulations and policies;
- ▶ support high standards of ethical conduct; and
- ▶ maintain processes and structures that support good corporate governance.

In addressing these objectives, the Audit Committee draws on the City Auditor, the City's external auditors, the Chief Administrative Officer, the City Treasurer and other Corporate resources as required.

These terms of reference place the Audit Committee at the heart of Council's arrangements to maintain strong accountability structures and processes. The necessity for Council, or any boards of governors, to take on this broad control role has been emphasized in recent years in a series of influential reports in Canada, the USA and the United Kingdom. It is important that the new City incorporate in its political structure a similar means of providing leadership and oversight on accountability, control and governance issues.

Office of the City Auditor

City Council has established an Office of the City Auditor that has been given real organizational independence. The City Auditor is appointed by and can only be dismissed by Council. Audit Committee and Council approve the Office's workplan and receive reports on each audit carried out. The Audit Committee monitors the performance of the Office and carries out the annual performance appraisal of the City Auditor. The City Auditor does not report to the Chief Administrative Officer.

In setting up the Office with this degree of independence, it was Council's intention to ensure that the City Auditor could report in an unbiased and uninhibited way on the management of City operations and that these reports be provided directly to the Audit Committee and Council.

2. Factors to be Considered in Establishing an Audit Function in the new City of Ottawa

Establishing the new City provides an opportunity that must be taken to look at all services critically and to think about how these services can be best provided in the future.

The remainder of this paper outlines some key considerations that should be thought through in deciding on the audit function in the new City of Ottawa. In the form of simple questions these considerations are:

- a Is there a need for an audit function?
- b If yes, what would be the key role(s) of the audit function?
- c What services would be provided, and to whom?
- d Would coverage extend to City boards and utilities?
- e What are the delivery options for audit services?
- f What should be the organizational placement and reporting relationship of the audit function?

As will be seen, these questions are often inter-related; form follows function.

a The Need for an Internal Audit Function

There are strong arguments to justify an internal audit function in a City that will have a budget in order of \$1.8 billion, more than 9,000 employees, a myriad of services and that, moreover, is facing a period of fundamental change.

- . Council should have a means of obtaining assurance, independent of management, that operations and resources are being well managed, that the information about performance it is receiving is reliable and adequate, that its policies and applicable legislation are being adhered to.
- . Council and Management need a resource to systematically identify performance improvement opportunities.
- . Council and Management need a source of guidance, advice and support in maintaining a cost-effective control regime.

Most major cities in Canada have an internal audit function, and all cities of the size of the new Ottawa do.

b Key Roles of the Audit Function

Underlying much of the 1996 to 1998 debate on audit was the question of the role of the audit function. What emerged clearly, and was reflected in the mandate and operational arrangements of the Office of the City Auditor, was that this Council saw the primary function of audit as providing independent reviews of management performance to

Council. Consequently, through the Audit Committee, Council took on the direct oversight of the Office.

There is no doubt that the current model is well designed to serve City Council's needs. What is not yet clear is whether it can also meet the legitimate and important needs of management for audit services. Increasingly in the private sector, and in the public sector where there are both internal audit groups and an auditor general, internal auditors are working collaboratively with management to add value to their organizations by identifying risks, focusing on cost-effective controls and undertaking reviews directly for management.

This is an important issue for the new City to consider in shaping its audit regime, to achieve a balance where Council's need for independent and unbiased review is not compromised but where the value-added services that a modern audit function can provide to management are allowed to develop.

c Services Provided by Audit

The services delivered by an audit function will depend on the roles it assumes. The following groups of services should be considered as services that might either be undertaken directly or placed under the management of an audit function.

Basic Services

- . value-for-money auditing
- . risk assessment / control evaluation
- . compliance auditing
- . validation of performance information
- . information systems auditing

Value Added Services

- . internal consulting
- . management advisory services
- . control education / control self-assessment services

Fraud Investigation / Forensic Auditing

Program Evaluation

External Audit Management

The services to be undertaken and the arrangements for oversight and reporting have to be carefully crafted to preserve the independence of the function while maximizing its utility.

d Coverage by the Audit Function

The new City will have within its broad control a range of services that will be provided through separate corporate entities - Library, Police, Hydro, Non-Profit Housing, etc. City Council, and the citizens it represents, have considerable policy and/or financial interests in these services. Decisions will have to be made on whether these services should be within the ambit of its audit function or whether the internal audit of these services should be left in the hands of their respective Boards.

e Service Delivery

The Transition Board has been tasked with looking at alternatives for service delivery in the new City. This is a relevant consideration in relation to the audit function.

It would be possible to contract out internal audit services. There are several firms in the market with internal auditing practices. Contracting out could encompass both the planning of internal audit work (work plan) and its execution, or the work plan could be put together by internal resources. In any case, the City would need resources to manage and monitor contracted-out work on behalf of the Audit Committee.

To my knowledge there is one municipality in Canada, Saskatoon, that has contracted out its internal audit work and in that case the contract was negotiated with its former internal auditor. All other municipalities that have internal audit functions deliver them with internal staff resources, supplemented by a consulting budget.

f Organizational Placement and Reporting Relationship of Audit Function

The organizational placement and reporting relationship of an audit function determines its real and perceived independence from, and within, the administration. The degree of independence necessary in turn depends on the role and mandate of the audit function.

If the audit function has as one of its primary roles the review of management performance on behalf of Council, then the function requires clear independence from management influence in project selection, execution of the work and reporting of results. This would require, in all substantive matters, a direct reporting relationship to Audit Committee and Council. This kind of reporting relationship, while essential to serve Council's interests, should not necessarily preclude the audit function from providing some of the value-added services discussed above directly to management, with the support and knowledge of the Audit Committee.

If, however, as in some municipalities, the primary role of the audit function is to support management in ensuring a cost-effective control structure and in finding service-improvement opportunities, then clearly the function can be under management's control, so long as the auditors are independent of the services they are reviewing and have the strong support of the Chief Administrative Officer.

Conclusion

Given the size and complexity of the new City of Ottawa, the range of services it will provide and the amount of funds it will control, there is a clear need for a strong accountability and control structure to be built into the new organization.

This requires leadership at the political level which can be provided through a mechanism similar to the present City's Audit Committee which is charged with oversight, on behalf of Council, of matters relating to financial reporting, internal control, auditing, corporate ethics and information for governance.

It also requires an audit function with the independence and clout to support the Audit Committee. There are serious options to be considered in designing this function in terms of its focus, its support to management, the services it provides and the extent of its coverage. There are also options in how audit services might be delivered.

At this stage it would not be appropriate to suggest which options should be followed. The only case being made here is the case for strong accountability and control mechanism to be built into the new structure.



February 14, 2000 (9:19a)

Peter O'Callaghan
City Auditor

PO:po

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Financial Comment

This report is administrative and there are no financial implications at this time.



February 14, 2000 (12:31p)

for Mona Monkman
City Treasurer

BH:cds