



# AUDIT COMMITTEE AGENDA

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Audit Committee Meeting  
**Tuesday, October 4, 2016**  
Tom Davies Square

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**COUNCILLOR DEB MCINTOSH, CHAIR**

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**Mike Jakubo, Vice-Chair**

4:00 p.m. AUDIT COMMITTEE MEETING  
COUNCIL CHAMBER

Council and Committee Meetings are accessible. For more information regarding accessibility, please call 3-1-1 or email [clerks@greatersudbury.ca](mailto:clerks@greatersudbury.ca).

## **DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF**

## **CONSENT**

(For the purpose of convenience and for expediting meetings, matters of business of repetitive or routine nature are included in the Consent Agenda, and all such matters of business contained in the Consent Agenda are voted on collectively. A particular matter of business may be singled out from the Consent Agenda for debate or for a separate vote upon the request of any Councillor. In the case of a separate vote, the excluded matter of business is severed from the Consent Agenda, and only the remaining matters of business contained in the Consent Agenda are voted on collectively.

Each and every matter of business contained in the Consent Agenda is recorded separately in the minutes of the meeting.)

## **CORRESPONDENCE FOR INFORMATION ONLY**

- C-1. Report dated September 19, 2016 from the Auditor General regarding Audit of Long Term Financial Planning. **4 - 15**  
**(FOR INFORMATION ONLY)**

(The objective of this audit was to determine if a Long-Term Financial Plan (LTFP) had been established recently to support the City's Corporate Strategic Plan and to manage the financial affairs of the City.)

## **REGULAR AGENDA**

### **MANAGERS' REPORTS**

- R-1. Report dated September 19, 2016 from the Auditor General regarding Proposed Revisions to the Auditor General's Office and Audit Committee. **16 - 26**  
**(RESOLUTION PREPARED)**

(This report outlines the proposed revisions to the Auditor General's Office and Audit Committee.)

### **ADDENDUM**

### **CIVIC PETITIONS**

### **NOTICES OF MOTION**

## **QUESTION PERIOD AND ANNOUNCEMENTS**

## **ADJOURNMENT**

## For Information Only

### Audit of Long Term Financial Planning

Presented To:	Audit Committee
Presented:	Tuesday, Oct 04, 2016
Report Date	Monday, Sep 19, 2016
Type:	Correspondence for Information Only

#### Resolution

For Information Only

#### Finance Implications

Disclosure of updated LTFP and Asset Management Plan

Signed By

**Auditor General**

Ron Foster

Auditor General

*Digitally Signed Sep 19, 16*

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# Audit of Long Term Financial Planning

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September 19, 2016  
FINAL REPORT

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## **SUMMARY**

### **Objectives**

The objective of this audit was to determine if a Long-Term Financial Plan (LTFP) had been established recently to support the City's Corporate Strategic Plan and to manage the financial affairs of the City.

### **Background**

Citizens and taxpayers expect their municipality to responsibly manage public assets and prudently guide the corporation's financial future. Strategic financial management allows a municipality to meet this expectation. It provides a plan for the future, allows a big-picture perspective, supports fiscal sustainability, and allows municipalities to make wiser decisions and achieve long-term goals.

A long-term financial plan (LTFP) which is anchored in a corporation's strategic direction and supported by current financial and economic analysis, is at the core of strategic financial management. A LTFP provides direction on a number of major financial areas, namely, operating and capital pressures, debt management, reserve funds, revenue generation and other financial policies. Strategies for each of these areas should be linked to the City's Corporate Strategic Plan.

### **Scope**

The scope of the audit covers the budgeting cycle for 2015 and 2016.

### **Report Highlights**

When the updated Long-Term Financial Plan and Asset Management Plan are completed and presented, Council will have a clearer picture of the City's financial situation including the strengths, weaknesses, opportunities, and threats when approving annual budgets and capital project proposals.

Specific performance targets were not identified and endorsed by previous Councils during annual budgets to support the principals and policies within the 2002 -2012 LTFP. As a result, limited progress has been made to address some of the financial challenges identified in the 2002 -2012 LTFP such as the limited reserves available to replace the City's aging assets.

The estimated maintenance backlog on the City's infrastructure, building, fleet, and other assets has grown to approximately \$1.4 billion and may limit the City's ability to maintain service levels.

### **Audit Standards**

We conducted our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

For further information regarding this report, please contact Ron Foster at extension 4402 or via email at [ron.foster@greatersudbury.ca](mailto:ron.foster@greatersudbury.ca)

**Long Term Financial Plan**

In 2002, the staff developed a long-term financial plan (LTFP) that was approved by Council but not fully embraced by subsequent Councils. The 2002-2012 LTFP examined the City's fiscal needs over the next ten years and set out nine principles and policies to guide City Council and the City administration in managing the financial affairs of the City. Appendix 9 sets out the guiding principles and policies.

In 2011, staff developed a tactical document entitled "Rethink, Refocus, Rebalance" to help the City to move toward fiscal sustainability. Annual updates to this document identified short term objectives to support the nine principles and policies of the LTFP. In 2015, the following fiscal sustainability objectives were identified:

1. Generate reliable and predictable revenues sufficient to meet current and future expenses;
2. Build and replace capital assets to support City's infrastructure requirements;
3. Provide expected level of municipal services efficiently and effectively;
4. Achieve stability in property taxes increases and intergenerational equity; and
5. Ensure sound financial management and health.

Staff issued a Request for Proposal in 2016 to update the City's LTFP which will be completed in Q1 2017.

**Observations**

- When the updated Long-Term Financial Plan and Asset Management Plan are completed and presented, Council will have a clearer picture of the City's financial situation including the strengths, weaknesses, opportunities, and threats when approving annual budgets and capital project proposals.
- Specific performance targets were not identified and endorsed by previous Councils during annual budgets to support the principals and policies within the 2002 -2012 LTFP. As a result, limited progress has been made to address some of the financial challenges identified in the 2002-2012 LTFP such as the limited reserves available to replace the City's aging assets.
- The estimated maintenance backlog on the City's infrastructure, building, fleet, and other capital assets has grown to approximately \$1.4 billion and may limit the City's ability to maintain service levels. Council was advised of the \$700 million infrastructure deficit on roads during the 2015 budget process and of the \$345 million capital requirement for water/wastewater during the 2016 budget process. The estimated maintenance backlog on the City's capital assets will be identified in the City's Asset Management Plan which will be completed in Q4 2016.

**Impacts**

1. The financial principles and policies within the 2002-2012 LTFP were endorsed in principle by previous Councils but not always followed during the annual budgeting process.
2. Council is not aware of the actual size of the maintenance backlog on all of the City's capital assets or the potential limits it imposes on the City's ability to maintain existing service levels.

3. The quality of decisions made by Council may be compromised by the absence of complete information on the City's current financial situation and the condition of its deteriorating capital assets in annual budgets and presentations on capital projects currently under consideration.

### **Recommendations**

1. A Long-Term Financial Plan (LTFP) covering 10 years should be developed to support achievement of the priorities outlined in the City's Corporate Strategic Plan while informing Council of the City's financial situation and current condition of its deteriorating capital assets.
2. The City should ensure its boards and wholly-owned corporations have established appropriate LTFPs if they are dependent on the City for financial support of any type.
3. Specific, measurable, action-oriented, and realistic goals should be developed to support achievement of the principles and policies within the new LTFP currently under development and incorporated into annual budgets.
4. Progress toward the principles and policies within the new LTFP should reported to Council within the annual budgeting process.
5. Staff should provide Council with current information on the City's financial condition such as that shown within Appendices 1 to 8 of this report with the annual budget and any presentations on major capital project proposals.

### **Management Comment-**

- **Management recognizes the need of a revised 10 Year Long Term Financial Plan. An external consultant has been selected through a RFP process and is underway. It is expected that it will be presented to City Council during the first quarter of 2017. This Plan will be developed to support the achievement of the City's Corporate Strategic Plan priorities in addition to illustrating the City's financial condition.**
- **Management will work throughout 2017 and 2018 to develop goals and specific action plans to support the achievement of the principles and policies within the revised LTFP once it has been presented to City Council.**
- **Management (along with external consultants) have presented long term financial plans to previous City Councils for Roads (in 2012) as well as Water/Wastewater (in 2011) that illustrated the financial condition and pressures facing our City's critical capital infrastructure.**
- **Previous annual budgets included a section on "Toward Fiscal Sustainability" which was based on the LTFP to illustrate the challenges facing the City along with the key principles and action items.**
- **The annual budget document, as well as the City's annual financial report in conjunction with the City's audited financial statements, has included key financial information such as reserves and reserve funds, total debt, and key performance indicators. Also, the annual capital budget includes an unfunded list that illustrates the significant unfunded capital needs by service area.**



- Management has implemented several financial policies, processes and by-laws approved by various City Councils to manage the City's financial condition now and for the long-term. This includes the Operating Budget Policy, Capital Budget Policy, Debt Management Policy and the Reserves and Reserve Fund By-Law.
- Management agrees with the limited progress made with the infrastructure deficit. Since 2002, management presented various City Councils with an option for a capital levy in accordance with the recommendations of the LTFP to assist with the growing infrastructure deficit. Previous City Councils approved a capital levy in the following years: 2005 of \$3.2M; 2006 of \$3.3M; 2007 of \$0.8M; 2008 of \$3.7M. This was partially offset by a permanent reduction to the capital envelopes of \$5M in the 2010 Capital Budget.
- City Council has provided direction to staff for the 2017 Budget for the consideration of a capital levy of 1.5% that will assist with the significant infrastructure deficit which includes Roads and Buildings.

#### **Action Plan**

The next 10 year Long Term Financial Plan is underway by an external consultant and it is expected that it will be presented to City Council during the first quarter of 2017.

#### **Action Plan Lead**

Acting Chief Financial Officer/Treasurer

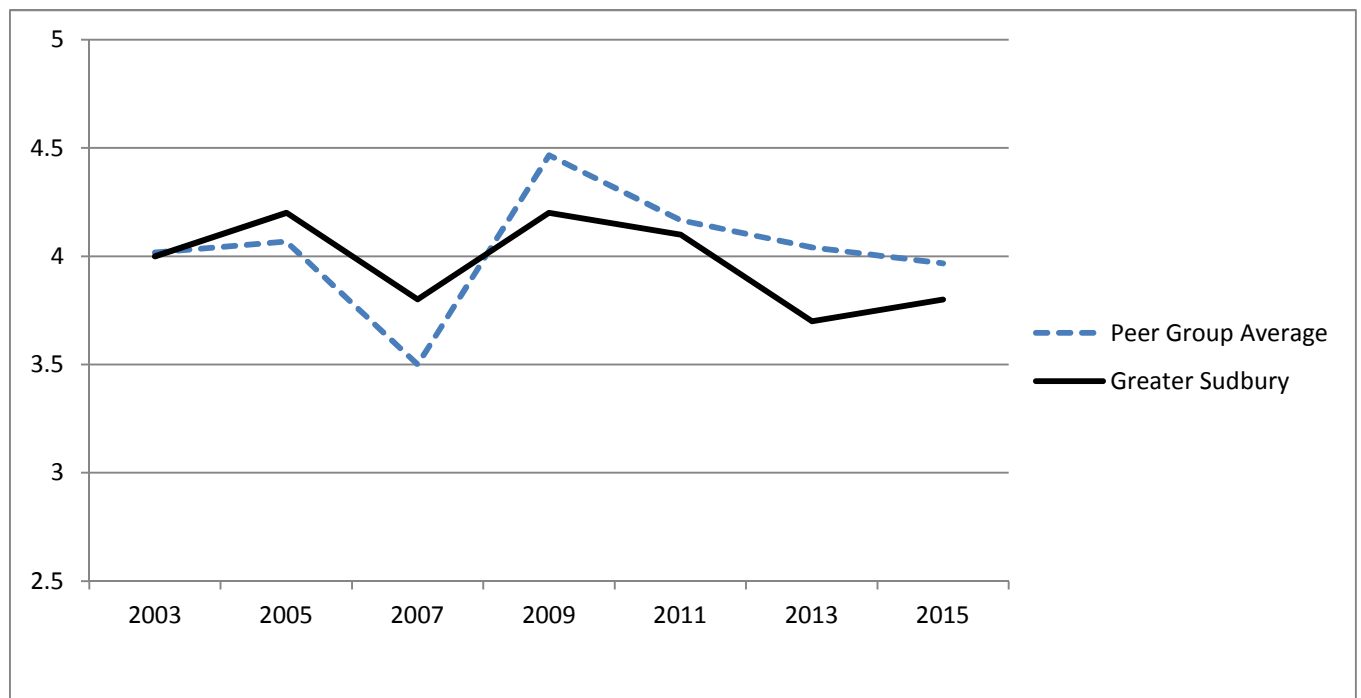
#### **Timing**

**2017/2018**

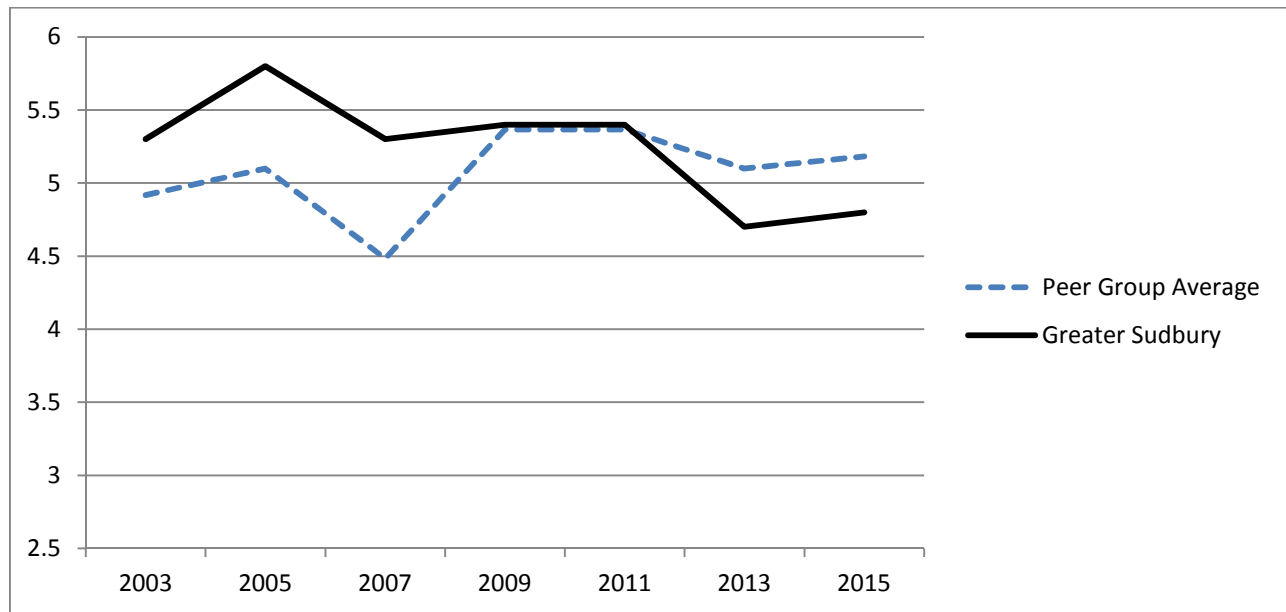
Appendix 1 – 2015 Property Taxes and Water/Wastewater Costs as a % of Income are Comparable to those within the City's Peer Group

<b>2015 Affordability Indicators</b>	<b>Thunder Bay</b>	<b>Chatham Kent</b>	<b>Guelph</b>	<b>Kingston</b>	<b>Barrie</b>	<b>Windsor</b>	<b>Peer Group Avg</b>	<b>Greater Sudbury</b>
<b>Property Taxes as a Percentage of Household Income</b>	<b>3.9%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>3.8%</b>
<b>Water/Sewer + Taxes as a Percentage of Household Income</b>	<b>1.3%</b>	<b>1.3%</b>	<b>0.9%</b>	<b>1.2%</b>	<b>0.9%</b>	<b>1.6%</b>	<b>1.2%</b>	<b>1.1%</b>

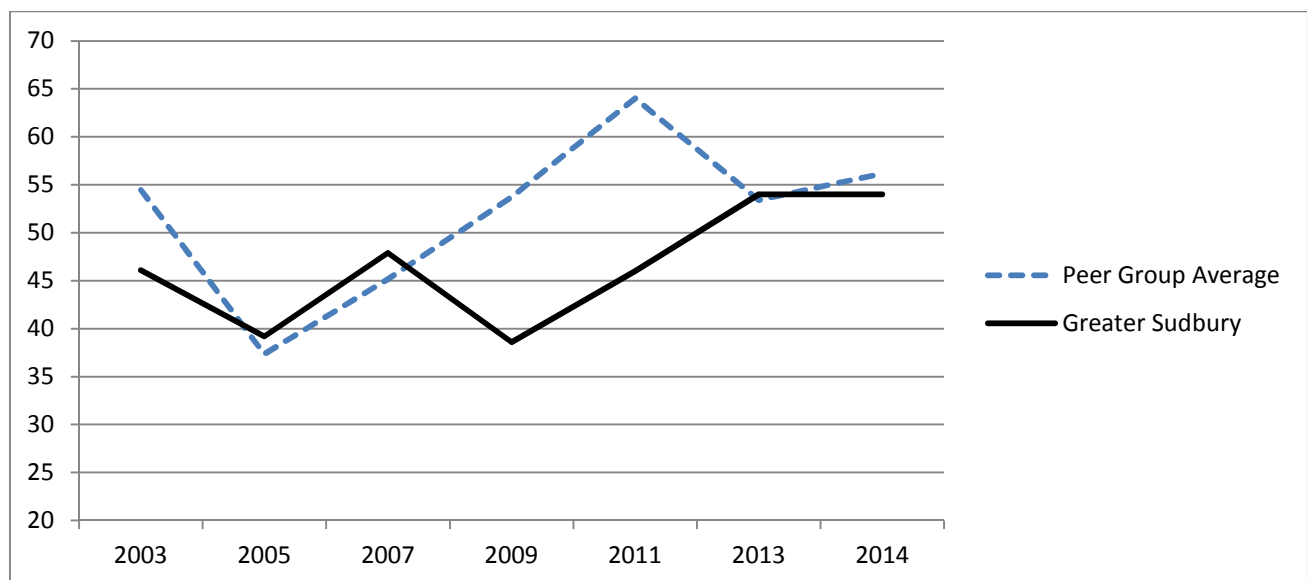
Appendix 2 – 2015 Property Taxes as a Percentage of Income have been Lower than in the Peer Group Average since 2008



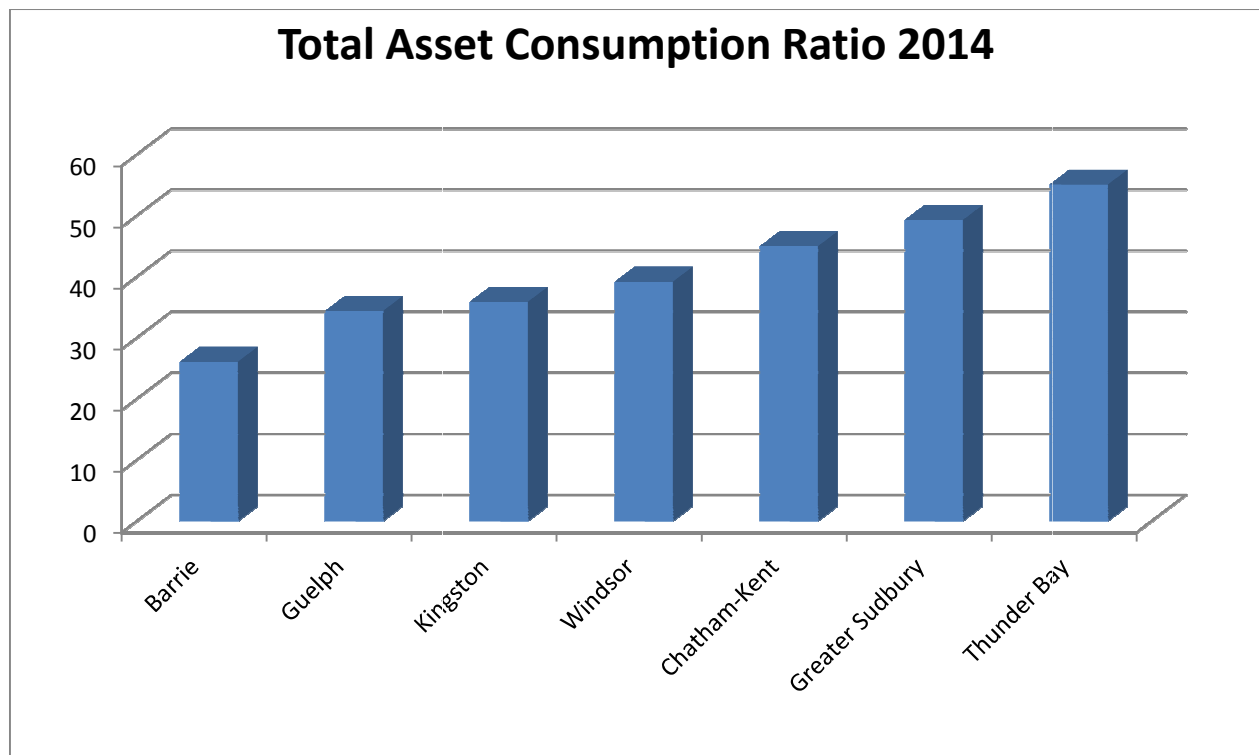
Appendix 3 – Total Taxes (including WWW) as a Percentage of Income have Comparable or Lower than the Peer Group Average since 2009



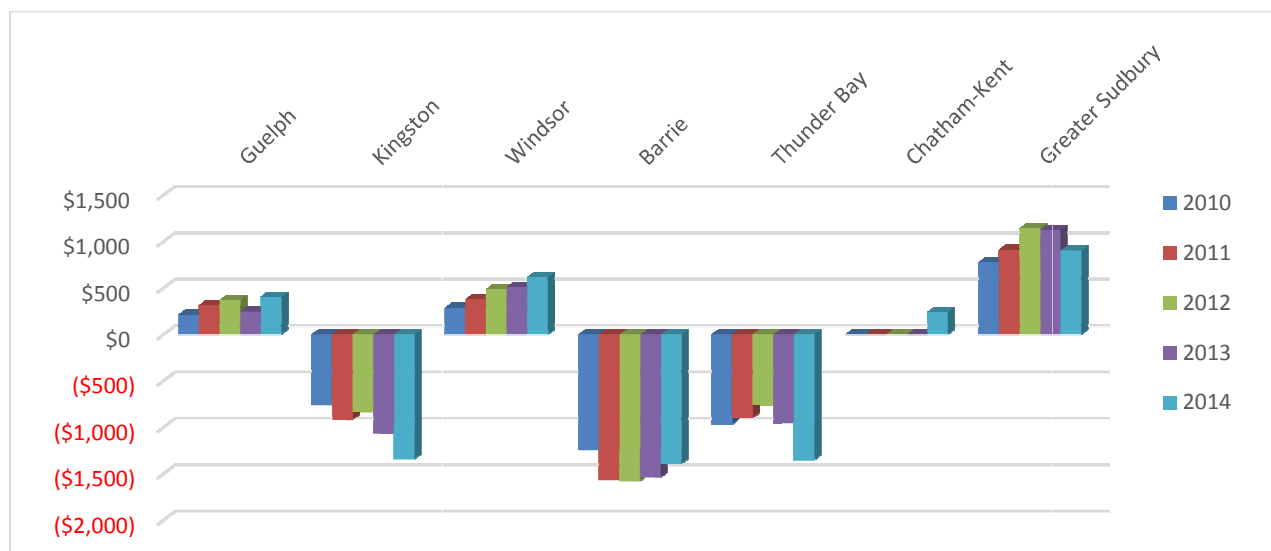
Appendix 4 – Discretionary Reserves as a Percentage of Taxation fell behind the Peer Group Average between 2007 and 2012 but have been comparable in recent years



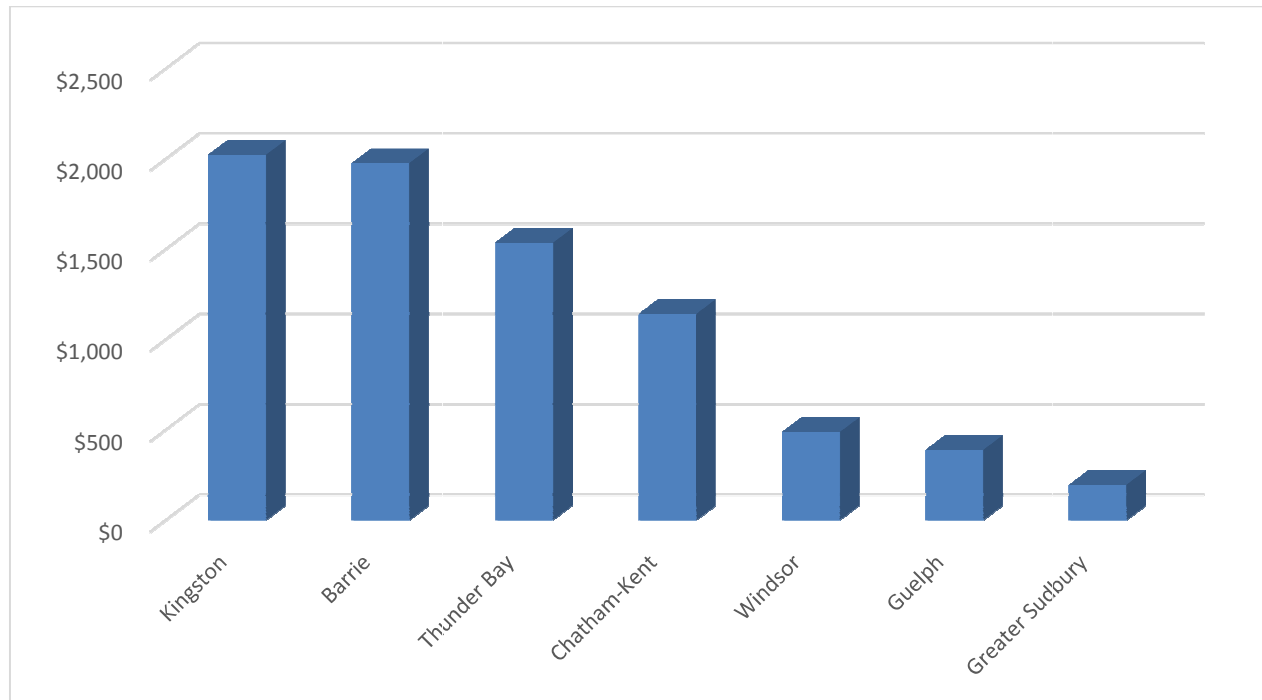
Appendix 5— The City’s Assets have a Higher Consumption Ratio than those of its peers as a result of being older and having higher Accumulated Depreciation



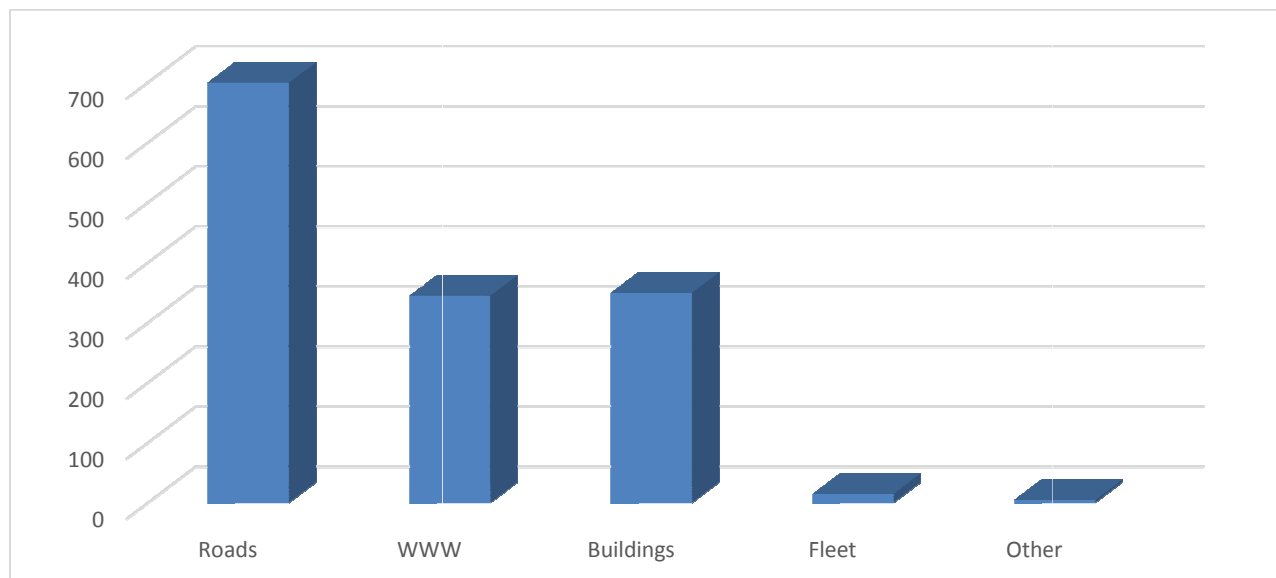
Appendix 6 – The City’s Short-Term Net Financial Position Per Capita is Stronger than its Peers



#### Appendix 7– The City’s Total Debt per Capita is Lower than All of it Peers



#### Appendix 8 – The Maintenance Backlog on the City’s Capital Assets is Approximately \$1.4 Billion



## Appendix 9 – Long-Term Plan 2002-2012

<b>Principles and Policies</b>	<b>Recommended Practice</b>
<b><i>Ensure Long-Term Financial Sustainability</i></b>	Determine on a multi-year basis the financial requirements for the City's operating and capital needs
	Include in the annual budget process a detailed one year budget, three year budget forecast and annual update of the 10-year projection
	Set revenue raising requirements giving consideration to measures of affordability and competitiveness.
	Raise sufficient revenue to meet long-term operating and financial requirements, recognizing that inflation increases the cost of both operating and capital programs.
	Recognize the relationship between the operating and capital budgets. Annually identify and provide for capital from current funding, annual debt servicing costs, and for changes to operating costs arising from new/replaced infrastructure.
	Plan for the replacement of infrastructure through the use of life cycle costing and the development of replacement reserves.
<b><i>Deliver services in a cost-effective and efficient manner</i></b>	Undertake regular service level reviews giving consideration to the City's demographic profile and other relevant factors
	Undertake reviews of City programs on a regular, rotating basis, through the use of value-for-money audits, to ensure services are delivered in a cost-effective and efficient manner.
	Develop key performance measures for each program area and incorporate performance measures in the annual operating budget.
<b><i>Ensure operating revenues are sustainable and consider community wide and individual benefits (taxes versus user charges)</i></b>	Finance ongoing expenditure requirements from ongoing, sustainable revenue sources.
	Align source and application of revenue considering community-wide and individual benefits.
	Establish target proportions of program costs to be raised through user charges based on reviews of benefits received.
	Establish user charges at rates that will yield the target proportions.
	Ensure that user fees are increased at the same (or greater) rate as increases in program operating costs.
	Strive to increase user fees as a percentage of overall funding by identifying new areas where user fees can be implemented.
	Ensure both operating and capital costs are considered when establishing user fees (full program costing).
	Programs which are driven entirely by individual benefit should be fully self-supporting through user fees.
	User fees should cover all operating and capital costs.
<b><i>Meet social equity objectives through specific programs</i></b>	New programs should only be implemented if fully financed from user fees and program reserves.
	Financial Plan policies should be applied on the basis of their benefit to the community as a whole.
<b><i>Manage the City's capital assets to maximize long-term community benefits</i></b>	Maintain the City's required infrastructure in a 'state of good repair' by implementing lifecycle costing to provide for the future rehabilitation/replacement of assets.

	Undertake regular reviews of remaining life and condition of assets and determine required annual reserve contributions sufficient to ensure that 90 per cent of approved infrastructure rehabilitation/replacement schedules can be met at the required time.
	Assets and facilities should be regularly reviewed and rationalized based on service demand and service level benchmarks. Facilities which do not achieve approved revenue/cost targets should be considered for closure.
	Dispose of capital assets which are not required for long-term community purposes.
	Implement a capital funding plan to address the City's infrastructure renewal requirements.
<b><i>Recognize that funding from senior governments is a crucial element of financial sustainability</i></b>	Seek additional sustainable revenues from the provincial and federal governments. Seek senior government funding sufficient to bridge the funding gap between net required program costs and affordable tax and user charge rates/revenues.
	Participate in grant/subsidy programs only if programs/projects to be supported are required or can be justified independent of the provision of the grant/subsidy.
<b><i>Use debt financing where appropriate</i></b>	Debt financing should only be considered for: <ul style="list-style-type: none"> <li>• new, non-recurring infrastructure requirements</li> <li>• programs and facilities which are self-supporting, and</li> <li>• projects where the cost of deferring expenditures exceeds debt servicing costs</li> </ul> Consider undertaking a short-term, managed program of debt financing to address the City's current infrastructure deficiency and to reduce further deterioration of the City's infrastructure.
	Issue debt for terms no longer than the life of the funded assets.
	As debt charges decline due to retirement of debt, apply savings to accelerate achievement of full life cycle costing for City infrastructure.
	Appoint a fiscal agent for the City and obtain a credit rating in order to facilitate the issuance of debt instruments.
<b><i>Maintain reserves and reserve funds at appropriate levels</i></b>	Facility, equipment and infrastructure replacement reserves should be established and funded to ensure that 90 per cent of approved infrastructure rehabilitation or /replacement schedules are met (long-term).
	Establish a stabilization reserve for programs that are susceptible to significant annual expenditure fluctuations
	Establish reserves to provide funding for future liabilities.
<b><i>Identify and quantify long-term liabilities</i></b>	Identify and quantify long-term liabilities of the City.
	Report long-term liabilities to Council on an annual basis. The reporting should identify the amount of liabilities and the resources available to meet the liabilities.

Presented To:	Audit Committee
Presented:	Tuesday, Oct 04, 2016
Report Date	Monday, Sep 19, 2016
Type:	Managers' Reports

## Request for Decision

### Proposed Revisions to the Auditor General's Office and Audit Committee

#### Resolution

See the enclosed report.

Signed By

**Auditor General**  
Ron Foster  
Auditor General  
*Digitally Signed Sep 19, 16*



## **Request for Decision on Proposed Revisions to the Auditor General's Office and Audit Committee**

Presented To:	Audit Committee
Presented:	Tuesday, October 4, 2016
Report Date:	September 19, 2016
Type:	Manager's Report

### **Resolution**

THAT the report from the Auditor General dated September 19, 2016 regarding proposed changes to the audit planning process, audit protocols, performance metrics and performance monitoring process for the Auditor General's Office be approved and recommended to Council;

That the introduction of an Enterprise Risk Management process within CGS be recommended to Council;

That the proposed amendments to the mandate and composition of the Audit Committee be recommended to Council; and

That, subject to the approval of Council, staff be directed to prepare the necessary changes to the Procedure By-law and By-law 2015-217.

### **Background**

In 2013, James Key from the Shenandoah Group, LLP was engaged by Council to re-evaluate the audit approach and to enhance audit committee oversight of the audit activity in CGS. According to the Shenandoah Report:

*"Most governance oversight boards or councils establish an audit committee to oversee the governance monitoring function. Internal auditors, external auditors, and other assurance providers are usually accountable to the audit committee. This oversight role requires an audit committee knowledgeable about strategic, operational, financial, and compliance risks and the regulatory and best practices that inform those risks. With a new council grounded in good governance, risk management, and audit oversight principles, stakeholders will be assured the city resources will be managed more efficiently and more effectively toward CGS' objectives."*

### **Recommendations from the Shenandoah Report**

To enhance audit committee oversight, the Shenandoah Report recommended that:

1. The CGS Audit Committee examine other audit services that would provide more value, e.g. financial (without attestation), consulting, compliance assurance, operational assurance in addition to the mostly value-for-money activity currently being done. Research suggests that AG's Office develop an annual audit plan that is broader than value-for-money audits.

2. The CGS Audit Committee establish and enforce a protocol that ensures management is engaged by the AG's Office during the annual risk assessment and audit plan cycle to offer management's view of risk. Moreover, the protocol should establish a specific time frame for management to agree with the facts or bring forward new information. The protocol should then allow for management's plan to resolve or mitigate the observations. Only then would a "final draft" be presented to council in public session.
3. The CGS Audit Committee work with the OAG to establish performance metrics for the AG's Office. They might include such measures as audits planned vs. completed and money recovered vs. hypothetical savings.
4. Network with the AG Offices in other municipalities to assess resourcing models, budgeting levels and maturity expectations appropriate to the needs of CGS.
5. Develop an Enterprise Risk Management (ERM) process that considers all risk across organizational silos and which maps to the CGS' strategic plan. Once implemented, an effective ERM process will provide better input to strategic planning, annual business planning, business continuity planning, and disaster recovery planning. Such an ERM process would also form a baseline for the AG's Office to develop a risk assessment and risk-based audit plan that will better provide assurance services to CGS.
6. Develop an Audit Committee Charter with bylaws that require two independent committee members with audit and financial expertise.
7. The CGS Audit Committee determine the level of funding appropriate for the audit services required to adequately assure risk.

## **Implementation Plan for Recommendations**

In response to the Shenandoah Report recommendations, the following is a suggested action plan that has been prepared for the review and approval of Audit Committee and Council:

1. Examine other audit services

The AG's Office engaged members of Audit Committee and Council when preparing the audit plan for 2016 to ensure its audit services responded to the needs of Council.

Proposal 1: Senior management will be engaged during the risk assessment and audit planning process in Q4 of 2017 going forward.

2. Establish and enforce a protocol for audits

The AG's Office benchmarked with the AG Offices in Toronto, Ottawa and Markham to identify relevant protocols for audits. The results are shown in Attachment 1.

Proposal 2: The following audit protocols, which have been in place since the beginning of 2016, are proposed for conducting audits:

- a) Notice to be provided one month in advance of audit;
- b) Comments on factual accuracy of findings are due two weeks after issue of draft report;
- c) Management responses are due two weeks after issue of updated draft report; and
- d) Final report to be issued one week after the closing meeting with senior staff and the Audit Committee Chair and Vice-Chair.

### 3. Establish performance metrics for the AG's Office

In addition to the benchmarking exercise at Attachment 1, input was obtained from the CAO, Chair & Vice-Chair of the Audit Committee on potential performance metrics for the AG's Office.

Proposal 3: The following performance metrics be used for the AG'S Office:

- a) Feedback from Annual Survey of Audit Committee Members;
- b) Feedback from Annual Survey of Senior Management;
- c) Percentage of audit plan completed;
- d) Quantity and quality of improvements recommended;
- e) Responsiveness to requests from Council and Audit Committee;
- f) Adequacy of management of budget and staff within AG's Office;
- g) Adequacy of maintenance of Wrongdoing Hotline; and
- h) Adequacy of development and maintenance of ERM process.

### 4. Network with other AG Offices

The AG's Office reached out to its counterparts in Toronto, Ottawa and Markham to complete the benchmarking study at Attachment 1.

Proposal 4: Performance data on the counterparts of the AG's Office will be tracked annually and used for benchmarking and performance monitoring purposes.

### 5. Establish an Enterprise Risk Management (ERM) process

According to the Shenandoah Report, "Enterprise Risk Management processes inform strategic planning, annual business planning and business continuity plans. They also lead to more robust business plans and more effective project management." Attachment 2 identifies other benefits of ERM processes such as a more risk focused culture and efficient use of resources.

Proposal 5: In conjunction with the City Manager, the AG's Office will develop and implement an ERM process in 2017 and 2018 including tools and training processes to identify, assess and report risks. The City Manager will take the lead on risk mitigation efforts. Costs for implementation and maintenance of the ERM process will be borne by the Auditor General's Office.

### 6. Revise the Mandate and Composition of Audit Committee

The Audit Committee duties are generally set out at Article 38 of our Procedure By-law 2011-235. All members of Council are currently members of the Committee. The proposed revision to the Audit Committee Mandate shown at Attachment 3 was developed with input from the Chair and Vice-Chair of the Audit Committee, Mayor, Chief Administrative Officer, City Clerk and City Solicitor.

As outlined in the attachment, the composition of the Committee would be set at a minimum of five and a maximum of seven members and would be augmented by one external advisor to ensure the committee has sufficient expertise in governance, risk management and controls during the implementation of ERM process in 2017 and 2018. The next Council can evaluate the continued need for an external advisor on Audit Committee.

As the Audit Committee will be tasked with overseeing the ERM implementation and ongoing reports on significant risks within CGS as well as the Wrongdoing Hotline, external auditors and Auditor General's Office, it is important that the members collectively have knowledge, skills and experience in auditing, accounting, finance, risk management and governance processes. Many public sector organizations, including municipalities such as Edmonton, are appointing non-voting external members or advisors to their Audit Committees to augment the skills and knowledge of committee members.

To avoid potential conflicts of interest, any external advisor appointed to the Committee would have to consent in writing to not be employed with a firm that prepares or audits the financial statements of the City, its boards, and municipally-controlled corporations and to neither be a candidate nor a member of an election campaign team.

If this approach is acceptable to Council, a subcommittee would be formed consisting of the Chair and Vice Chair of Audit Committee and the Auditor General to select an appropriate external advisor to Audit Committee with appropriate knowledge, skills and experience.

An advertisement for the external advisor for a two-year appointment to Audit Committee would be developed and posted in Q4 2016. The estimated annual cost for this external advisor in 2017 and 2018 would be \$3,000 to \$5,000 which includes \$400 per day for attendance at meetings and reimbursement of travel costs incurred in accordance with CGS policy. Per diems paid by other municipalities in Ontario range from \$100 to \$500.

Proposal 6: The Audit Committee Mandate at Attachment 3 be endorsed by Audit Committee and recommended to Council. An external advisor would be appointed in Q4 2017 for a two-year term and would be paid from the AG's Office budget in accordance with the terms and conditions outlined within this report.

#### 7. Determine the level of funding appropriate for audit services in CGS

The minimum funding level for the AG's Office in CGS set out in By-law 2015-217 is 0.065% of the annual operating budget. To maintain the expanded audit services and to provide timely and effectively support of the wrongdoing hotline, to ensure the ERM initiative is successfully initiated and maintained, and to support the fees for an external advisor to the Audit Committee, incremental funding of \$12,500 will be required in both 2017 and 2018 to bolster the capability of the Auditor General's Office.

Increasing the capability of staff in the AG's Office is in keeping with the best practices recommended within the Shenandoah Report and is also aligned with CGS' leadership development program. It will also allow for a more effective and timely response to complaints within the Wrongdoing Hotline which and will support CGS' Strategic Plan which promotes open, transparent, accountable government.

Providing the AG's Office with additional temporary funding in 2017 and 2018 is also considerably more cost effective than increasing reliance on external contractors which might cost an additional \$50,000 to \$100,000 annually or adding a full-time position in the risk management section of the Finance Department which would cost \$100,000 or more annually.

Proposal 7: The AG's Office budget be increased by \$12,500 for 2017 and 2018 and these increases be funded from the Auditor General's Reserve. This proposed increase will be fully documented in a business case which will be presented during the 2017 budget process.

### **Financial Impact**

Assuming a 4.0% increase in the operating budget, this resolution would result in an increase to the AG's Office budget in 2017 of \$12,500 and a regular increase of \$12,176 for growth in the annual operating budget. The incremental funding for 2017 and 2018 will not affect the tax levy as the funding source will be the Auditor General's Reserve.

<b>Expenses</b>	<b>2016</b>	<b>2017 Base Budget</b>	<b>Funding from AG's Reserve</b>	<b>2017</b>
Salaries and benefits	\$294,618	\$306,021		\$306,021
Materials	3,926	1,473		1,473
Professional development and training	10,487	12,500	\$12,500	25,000
Purchased contract services	23,022	24,000		24,000
Internal recoveries	21,353	21,588		21,588
Total	\$353,406	\$365,582	\$12,500	\$378,082

# Benchmarking of Auditor General Functions

# Attachment 1

Questions	Toronto	Ottawa	Greater Sudbury	Markham
Where does AG function report administratively?	Council through Audit Committee	Council through Audit Committee	CAO	Commissioner Corp Services
Where does AG function report functionally?	Council through Audit Committee	Council through Audit Committee	Council through Audit Committee	Council through General Committee
Are there formal terms of reference for Audit Committee?	Yes	Yes	Yes, but only very basic terms of reference	No Audit Committee
Are any external members appointed to Audit Committee?	No	No	An external member may be appointed in Q4 2016 to respond to the recommendation of James Key.	No Audit Committee
What training is provided to Council in Governance, Risk Management and Controls?	Briefings provided by staff not AG	New councilors briefed by AG on role of Audit.	Initial training in Governance was provided in orientation sessions to Council	No formal training other than familiarization of role of AG
What training is provided to Audit Committee in Governance, Risk Management and Control (GRC) Processes?	No training but Roles and Responsibilities Of AC clarified in formal report	Nothing specific	Training in GRC processes will be provided to Audit Committee members in 2016 and 2017	No Audit Committee
Does AG function have a formal mandate or charter outlining his/her responsibilities and powers?	Yes within the Municipal Code which contains City By-laws	Yes, within By-laws no. 2013-375 and 2015-11	Yes, within By-law 2015-217	Audit Charter drafted but not approved yet
Is an annual report from AG required?	Yes	Yes	Yes	No
Is an annual audit plan required?	Yes	Yes	Yes	Yes
Is an annual risk assessment required?	No, but a formal risk assessment is completed every 5 years	No but it is prepared to support the annual audit plan	No, but it is prepared to support the annual audit plan	No, but it's part of 4-year audit plan
Does the City have an Enterprise Risk Management Process?	No	Yes	No, but plans are being developed to implement ERM in 2017	No
Are the AG's reports on the City's website?	Yes	Yes	Yes	Yes
Does your office have formal protocols for				
a) Advance notice to audit entity about start date of audit?	A project start letter is sent to management prior to start	Letter sent to auditee prior to start of audit and a kick-off meeting is held	Notice to be provided one month in advance of audit	No formal protocols exist
b) Time for providing responses to draft audit report	At least 2 weeks allowed to provide comments and a preliminary response	A 4-week turn-around exists for the draft report to vet audit findings	Comments on draft report findings would be due two week after issue	No formal protocols exist
c) Time for providing responses to final audit report	At least 1 week is allowed for final response	A 4-week turn-around exists for the final report to obtain management responses	Management response would be due two weeks after issue of final report	No formal protocols exist
What performance measures are reported annually to Audit Committee or Council for AG function?	Actual dollar savings; potential savings; at risk dollars; the impact on activities with unidentifiable dollars	No formal performance measures exist	a) Percentage of audit plan completed b) Feedback from Annual Survey of Audit Committee Members c) Feedback from	No formal performance measures exist

			<p>Annual Survey of Senior Management</p> <p>d) Quantity of cost savings, productivity improvements or revenue generation opportunities identified in audits</p> <p>e) Quantity and quality of improvements recommended to internal control, risk management and governance processes</p> <p>f) Responsiveness to requests from Council and Audit Committee</p> <p>g) Adequacy of management of budget and staff within AG's Office</p> <p>h) Adequacy of maintenance of Wrongdoing Hotline</p>	
What is the budget for your office relative to the operating budget of the City for 2016?	<p>Audit Budget: \$4.97 M</p> <p>Optg Budget: \$10.06 B</p> <p>Percent: 0.0494</p>	<p>Audit Budget: \$1.79 M</p> <p>Optg Budget: \$3.26 B</p> <p>Percent: 0.0549</p>	<p>Audit Budget: \$353 K</p> <p>Optg Budget: \$518 M</p> <p>Percent: 0.068</p>	<p>Audit Budget: \$150 K</p> <p>Optg Budget: \$186 M</p> <p>Percent: 0.081</p>

## What is Enterprise Risk Management (ERM)?

ERM is a way to effectively manage risk across the organization through the use of a common risk management framework. This framework can vary widely among organizations but typically involves people, rules, and tools. This means individuals with defined responsibilities use established, repeatable processes (rules), and the appropriate level of technology (tools) to mitigate risk. A committee of five organizations dedicated to thought leadership around risk management provided a definition of ERM in 2004. The Committee of Sponsoring Organizations (COSO) defined it as:

*"... a process, effected by the entity's board of directors, management, and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives."*

### Benefits of Enterprise Risk Management

As business risks continue to increase, organizations are finding it necessary to implement some sort of formal risk management system. An effective enterprise risk management (ERM) program can help organizations manage their risks and maximize opportunities. Organizations in all types of industries, public and private, have observed a variety of benefits from enhancing their risk management programs.

Organizations often find that ERM programs provide a combination of both qualitative and quantitative benefits. While there are many benefits to ERM, let's focus on six of them.

#### **Benefit one: creation of a more risk focused culture for the organization**

Organizations that have implemented ERM note that increasing the focus on risk at the senior levels results in more discussion of risk at *all* levels. The resulting cultural shift allows risk to be considered more openly and breaks down silos with respect to how risk is managed.

As risk discussions develop into a standard part of the overall strategic business processes, operational units often find that addressing risk in a more formal way helps manage their part of the organization as well. Communication and discussion of risk is recognized as not only a process to provide information to senior management, but a way to share risk information within and across operations of the company, and allow better insights and decision making concerning risk at all levels.

#### **Benefit two: standardized risk reporting to senior management and board of directors**

ERM supports better structure, reporting, and analysis of risks. Standardized reports that track enterprise risks can improve the focus of directors and executives by providing data that enables better risk mitigation decisions. The variety of data (status of key risk indicators, mitigation strategies, new and emerging risks, etc.) helps leadership understand the most important risk areas. These reports can also help leaders develop a better understanding of risk appetite, risk thresholds, and risk tolerances. Reports to directors can also improve the accountability of executives for mitigating significant risks and/or realizing significant opportunities.



One of the major values of ERM risk reporting is improved, timeliness, conciseness, and flexibility of the risk data. This provides the data needed for improved decision making capabilities within the executive and director levels, and in other layers of management. ERM helps management recognize and unlock synergies by aggregating and sharing all corporate risk data and factors, and evaluating them in a consolidated format.

### **Benefit three: improved focus and perspective on risk**

ERM develops leading indicators to help detect a potential risk event and provide an early warning. Key metrics and measurements of risk further improve the value of reporting and analysis and provide the ability to track potential changes in risk vulnerabilities or likelihood, potentially alerting organizations to changes in their risk profile.

ERM also permits a more complete viewpoint on risk. Traditional risk practices focus on mitigation, acceptance, or avoidance. However, effective ERM processes gives management a framework to evaluate risk as an opportunity to increase competitive positions and exploit certain market and operational conditions.

### **Benefit four: efficient use of resources**

In organizations without ERM, many individuals may be involved with managing and reporting risk across operational units. While developing an ERM program does not replace the need for day to day risk management, it can improve the framework and tools used to perform the critical risk management functions in a consistent manner. Eliminating redundant processes improves efficiency by allocating the right amount of resources to mitigating the risk.

### **Benefit five: improved plans**

Organizations that have implemented ERM and made efforts to integrate it within other key management processes reported notable improvements to the quality of plans at various levels including strategic, operational, tactical, and emergency levels as well as for business continuity purposes. These benefits were not realized within organizations that did not integrate the ERM function to performance measurement processes for its executives.

### **Benefit six: effective coordination of regulatory and compliance matters**

Bond rating agencies, financial statement auditors, and regulatory examiners, have begun to inquire about, test, and use monitoring and reporting data from ERM programs. Since ERM data involves identifying and monitoring controls and mitigation efforts across the organization, this information can help reduce the effort and cost of such audits and reviews.

Through all of the benefits noted above, ERM can enable better cost management and risk visibility related to operational activities. It also enables better management of market, competitive, and economic conditions, and increases leverage and consolidation of disparate risk management functions.

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*Slightly Modified from an Article by Jim Kreiser, Principal, Clifton Larson Allen*

**38.01 Mandate**

The Audit Committee shall provide oversight to the Auditor General and to the work of the City of Greater Sudbury's external auditors. The Committee shall hear presentations and receive correspondence and reports from the Auditor General *and other City staff regarding audits, the wrongdoing hotline and the City's enterprise risk management processes.*

**38.02 Primary Objectives**

The Audit Committee shall be responsible for the following objectives:

- (1) To review and approve the external auditor's work plan;
- (2) To review the annual Audited Financial Statements and the annual Audit Findings Report;
- (3) To review the Auditor General's reports and annual work plan
- (4) To conduct an annual review of the Auditor General's Office;
- (5) To review matters included in the Auditor General's mandate;
- (6) To study topics or issues referred to the Committee by Council resolution;
- (7) *To review and approve reports on the City's Wrongdoing Hotline; and*
- (8) *To review and approve reports on the City's Enterprise Risk Management process.*

**38.03 Membership**

*The Audit Committee shall be composed of at least five and a maximum of seven Members of Council. An external advisor may be appointed by Committee to augment the knowledge, skills and experience of Committee members.*

**38.04 Term**

The term of the Audit Committee shall coincide with the term of Council.

**38.05 Automatic Adjournment**

- (1) Where a Finance and Administration Committee meeting is scheduled to begin at 6 p.m. the same day, the meeting shall automatically adjourn at 5:30 p.m. if still in session, unless otherwise decided by a two-thirds majority of the Members present.
- (2) Where there is no meeting of the Finance and Administration Committee scheduled for the same day, the Audit Committee shall automatically adjourn in accordance with Articles 25.03 and 25.04.

**38.05 Meeting Dates (By-law 2012-168)**

*Commencing in 2017, the Audit Committee shall usually meet on the same days as the Finance and Administration Committee at the end of each quarter.*



# City of Greater Sudbury Charter

**WHEREAS** Municipalities are governed by the Ontario Municipal Act, 2001;

**AND WHEREAS** the City of Greater Sudbury has established Vision, Mission and Values that give direction to staff and City Councillors;

**AND WHEREAS** City Council and its associated boards are guided by a Code of Ethics, as outlined in Appendix B of the City of Greater Sudbury's Procedure Bylaw, most recently updated in 2011;

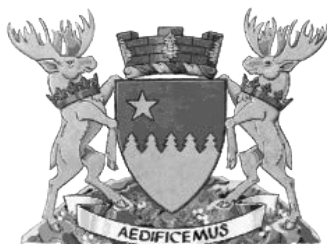
**AND WHEREAS** the City of Greater Sudbury official motto is "Come, Let Us Build Together," and was chosen to celebrate our city's diversity and inspire collective effort and inclusion;

**THEREFORE BE IT RESOLVED THAT** Council for the City of Greater Sudbury approves, adopts and signs the following City of Greater Sudbury Charter to complement these guiding principles:

**As Members of Council, we hereby acknowledge** the privilege to be elected to the City of Greater Sudbury Council for the 2014-2018 term of office. During this time, we pledge to always represent the citizens and to work together always in the interest of the City of Greater Sudbury.

**Accordingly, we commit to:**

- Perform our roles, as defined in the Ontario Municipal Act (2001), the City's bylaws and City policies;
- Act with transparency, openness, accountability and dedication to our citizens, consistent with the City's Vision, Mission and Values and the City official motto;
- Follow the Code of Ethical Conduct for Members of Council, and all City policies that apply to Members of Council;
- Act today in the interest of tomorrow, by being responsible stewards of the City, including its finances, assets, services, public places, and the natural environment;
- Manage the resources in our trust efficiently, prudently, responsibly and to the best of our ability;
- Build a climate of trust, openness and transparency that sets a standard for all the City's goals and objectives;
- Always act with respect for all Council and for all persons who come before us;
- Ensure citizen engagement is encouraged and promoted;
- Advocate for economic development, encouraging innovation, productivity and job creation;
- Inspire cultural growth by promoting sports, film, the arts, music, theatre and architectural excellence;
- Respect our historical and natural heritage by protecting and preserving important buildings, landmarks, landscapes, lakes and water bodies;
- Promote unity through diversity as a characteristic of Greater Sudbury citizenship;
- Become civic and regional leaders by encouraging the sharing of ideas, knowledge and experience;
- Work towards achieving the best possible quality of life and standard of living for all Greater Sudbury residents;



# Charte de la Ville du Grand Sudbury

**ATTENDU QUE** les municipalités sont régies par la Loi de 2001 sur les municipalités (Ontario);

**ATTENDU QUE** la Ville du Grand Sudbury a élaboré une vision, une mission et des valeurs qui guident le personnel et les conseillers municipaux;

**ATTENDU QUE** le Conseil municipal et ses conseils sont guidés par un code d'éthique, comme l'indique l'annexe B du Règlement de procédure de la Ville du Grand Sudbury dont la dernière version date de 2011;

**ATTENDU QUE** la devise officielle de la Ville du Grand Sudbury, « Ensemble, bâtissons notre avenir », a été choisie afin de célébrer la diversité de notre municipalité ainsi que d'inspirer un effort collectif et l'inclusion;

**QU'IL SOIT RÉSOLU QUE** le Conseil de la Ville du Grand Sudbury approuve et adopte la charte suivante de la Ville du Grand Sudbury, qui sert de complément à ces principes directeurs, et qu'il y appose sa signature:

**À titre de membres du Conseil**, nous reconnaissons par la présente le privilège d'être élus au Conseil du Grand Sudbury pour le mandat de 2014-2018. Durant cette période, nous promettons de toujours représenter les citoyens et de travailler ensemble, sans cesse dans l'intérêt de la Ville du Grand Sudbury.

**Par conséquent, nous nous engageons à :**

- assumer nos rôles tels qu'ils sont définis dans la Loi de 2001 sur les municipalités, les règlements et les politiques de la Ville;
- faire preuve de transparence, d'ouverture, de responsabilité et de dévouement envers les citoyens, conformément à la vision, à la mission et aux valeurs ainsi qu'à la devise officielle de la municipalité;
- suivre le Code d'éthique des membres du Conseil et toutes les politiques de la municipalité qui s'appliquent à eux;
- agir aujourd'hui pour demain en étant des intendants responsables de la municipalité, y compris de ses finances, biens, services, endroits publics et du milieu naturel;
- gérer les ressources qui nous sont confiées de façon efficiente, prudente, responsable et de notre mieux;
- créer un climat de confiance, d'ouverture et de transparence qui établit une norme pour tous les objectifs de la municipalité;
- agir sans cesse en respectant tous les membres du Conseil et les gens se présentant devant eux;
- veiller à ce qu'on encourage et favorise l'engagement des citoyens;
- plaider pour le développement économique, à encourager l'innovation, la productivité et la création d'emplois;
- être une source d'inspiration pour la croissance culturelle en faisant la promotion de l'excellence dans les domaines du sport, du cinéma, des arts, de la musique, du théâtre et de l'architecture;
- respecter notre patrimoine historique et naturel en protégeant et en préservant les édifices, les lieux d'intérêt, les paysages, les lacs et les plans d'eau d'importance;
- favoriser l'unité par la diversité en tant que caractéristique de la citoyenneté au Grand Sudbury;
- devenir des chefs de file municipaux et régionaux en favorisant les échanges d'idées, de connaissances et concernant l'expérience;
- viser l'atteinte de la meilleure qualité et du meilleur niveau de vie possible pour tous les résidents du Grand Sudbury.