

Vision: *The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.*



Agenda

Audit Committee

meeting to be held

Tuesday, October 23rd, 2012

at 4:00 pm

Tom Davies Square

AUDIT COMMITTEE AGENDA

Audit Committee Meeting
Tuesday, October 23, 2012
Tom Davies Square

COUNCILLOR CLAUDE BERTHIAUME, CHAIR

Doug Craig, 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.

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

PRESENTATIONS

1. Report dated October 17, 2012 from the Auditor General regarding 2012 Annual Report – Auditor General's Office. **4 - 15**
(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)
(Auditor General's review of accomplishments over the last year)
2. Report dated October 17, 2012 from the Auditor General regarding Auditor General Workplan Status - Oct 2012. **16 - 18**
(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)
(An update of the status of audit reports delivered, planned, and in progress)

Adjournment

**CAROLINE HALLSWORTH, EXECUTIVE DIRECTOR, ADMINISTRATIVE SERVICES/CITY CLERK
LIZ COLLIN, COMMITTEE ASSISTANT**

For Information Only

2012 Annual Report – Auditor General’s Office

Presented To:	Audit Committee
Presented:	Tuesday, Oct 23, 2012
Report Date	Wednesday, Oct 17, 2012
Type:	Presentations

Recommendation

For Information Only

Background

Greater Sudbury Council appointed the city’s first Auditor General in 2009. The Municipal Act (2001) , and Municipal Bylaw 2009-239 explain that the Auditor General “reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations”.

The Municipal Act (2001) anticipates the need for, and provides Auditor Generals with many powers that support their ability to perform their responsibilities in an independent manner. The Auditor General’s statutory powers go well beyond powers provided to External Auditors, or other Internal Audit formats. These essential statutory powers are intended to increase transparency and accountability within municipalities, thereby preserving or enhancing the public’s trust. This trust is founded on the public’s expectation and belief that the Auditor General’s access to the organization is unfettered, that the Auditor General is able to perform his or her responsibilities without threats to this independence or obstruction of audit activities.

Summary

This is our second annual report. Our annual report is provided in accordance with Municipal Bylaw 2009-239 11 (1), which requires the Auditor General to provide an annual summary report to the Audit Committee. It highlights audits issued, our successful peer review, and the many administrative activities completed between July 2011 and June 2012.

Over the previous audit year, (July 2011 to June 2012), the Auditor General’s Office provided reports to Audit Committee and Council with cumulative potential savings to the City of \$2.1 million compared to an audit expenditure of \$360 thousand. In simple terms, for every \$1 dollar invested in the audit process the return on this investment has been \$5.78 dollars. Many of the estimated cost savings are ongoing and occur on an annual basis.

We have made one hundred fifty seven recommendations in our audits over the last two years. Although it is expected that we make an attempt to estimate direct financial benefits and operational efficiencies, this report also highlights non-financial benefits demonstrated through the City’s responses and action plans that

Signed By

Auditor General

Brian Bigger

Auditor General

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have evolved from or have been accelerated due to observations made in our reports. Audits are a catalyst, an enabler for change. Transparency and accountability has certainly been heightened. Policies and procedures have certainly been improved. A positive cultural shift accelerated.

Financial Impact

The recommendation in this report has no financial impact.

2012 ANNUAL REPORT



Office of the Auditor General
Bureau du vérificateur général

1) Background

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2) Summary

This is our second annual report. Our annual report is provided in accordance with Municipal Bylaw 2009-239 11 (1), which requires the Auditor General to provide an annual summary report to the Audit Committee. It highlights audits issued and the many administrative activities completed between July 2011 and June 2012.

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We have made one hundred fifty seven recommendations in our audits over the last two years. Although it is expected that we make an attempt to estimate direct financial benefits and operational efficiencies, this report also highlights non-financial benefits demonstrated through the City's responses and action plans that have evolved from or have been accelerated due to observations made in our reports. Audits are a catalyst, an enabler for change. Transparency and accountability has certainly been heightened. Policies and procedures have certainly been improved. A positive cultural shift accelerated.

3) Financial Impact

The recommendation in this report has no financial impact.

¹ http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_01m25_e.htm

² http://www.greatersudbury.ca/pdf_bylaws/By_law_20_743561.pdf

4) Focus: Audit Work Plan

When selecting audit projects, we attempt to balance audit work that will identify opportunities for cost reductions, increased revenues, enhanced efficiency and effectiveness of municipal services, and improvements in major control systems. As always, projects are identified where audit or review procedures are expected to present the greatest organizational value for the time and resources committed.

Our Audit Work Plan is intended to be flexible and may be amended by the Auditor General as required. The bylaw establishing the Auditor General's Office provides that once established, "no deletions or amendments to the annual audit plan shall be made except by the Auditor General, however, Council may add to the annual audit plan by a two-third's majority vote."

5) Results Produced By The Auditor General's Office This Year

The 2011 - 2012 audit year was another successful year for our office. The results produced by the Office this year would clearly not have been possible without the hard work and dedication of my Senior Auditor.

i. Number of Audits

The number of audits is not generally considered a strong indicator of the success of an audit function as, more than any other element it often is a reflection of conscious decisions related to audit scope, and auditing style.

In an ideal world, the Office would have the resources to systematically audit City programs and activities at approximately six year intervals, with sufficient capacity to respond to "emerging issues". We do not have the resources to conduct audits on a full program basis. Instead, a greater portion of our resources have been directed toward an annual "risk based" work plan that attempts to respond to "emerging issues".

The number of audit projects we include in our work plan is impacted by two things. Available staff resources are a factor as we are a department of two with the Auditor General, and one Senior Auditor, and the scope and complexity of the audits planned. Larger or more complex audits require more resources.

ii. Number of Audit Recommendations

We have made one hundred fifty seven recommendations in our audit reports over the last two years.

Suggestions made by the IIA in their 2012 Quality Assurance Report, included revisions to our report format and contents to reduce the overall length of reports, and consolidation of low risk or minor issues or providing them to management outside the audit report. We have implemented these suggestions beginning with the Audit of Water Main Emergency Repairs.

Between July 2011 and June 2012, the Auditor General's Office made thirty-eight audit recommendations to management. We also provided a further eleven suggestions to management through an audit memo at the end of the Water Main Emergency Repairs Audit.

Table 1 provides the number of recommendations found in our audit reports.

Recommendations Made To Management	
Report Title	Audit Report Recommendations Made
2010/2011 Total	119
Handi Transit Services	6
Transit Kiosk and Café Contract Mgmt	21
Audit of Watermain Emergency Repairs	11
2011/2012 Total	38

Table 1

iii. Audit Benefits That Are Not Necessarily Quantifiable

On an ongoing basis, we monitor the City's responses and action plans that have evolved from or have been accelerated due to observations made in our reports. We see that audits are a catalyst, an enabler for change. Transparency and accountability has certainly been heightened. Policies and procedures have certainly been improved. A positive cultural shift has begun. A more detailed update of the City's responses and action plans is planned in January 2013.

Management's response(s) to observations made in our audits have benefitted the City of Greater Sudbury in a variety of ways.

1. Conventional Transit Services (8/2011)

This report contained sixteen recommendations related to improvements in the Conventional Transit Services program, and in response to this audit, Council requested an operational review of Transit and Fleet Services.

The IBI Group was awarded the contract to conduct this consulting review, and IBI's report was presented to and received by both the Operations Committee and Council. IBI's report supported the observations and recommendations made by the auditors. Staff state that they will be returning to the Operations Committee with proposals relating to these organizational / operational reviews.

Transit and Fleets Services management has also hired a Manager of Finance and Administration (Transit & Fleet), as well as a Transit Planner to assist with route planning and development.

Eleven months after this audit was started, (7/2011), the fleet section was consolidated under the Director of Transit and Fleets Services. The City also purchased a new

property on Lorne Street which will be the new Transit / Fleet garage. Transit will merge the two sections, and inventory, workloads, duties and reporting relationships will be addressed.

Finance has assisted Transit and Fleets Services with improvements to inventory controls, counts and transition to the Diamond solution model used in the fleet garages.

In conclusion, Transit and Fleets Services management as well as Finance have taken many positive steps to address the observations made in the audit report.

2. Handi Transit Services (8/2011)

This report contained six recommendations related to improvements in the Handi Transit Services program.

Management plans to continue to work with their service provider on coordinated dispatch as well as providing portions of rides on the conventional and Handi transit systems.

Management responded with an advertising campaign which was intended to provide Handi Transit customers with the information they required to make the decision to move to the conventional system.

Management has also taken steps to improve the level of detail for information provided on Trans Cab invoices.

In conclusion, Transit and Fleets Services management has taken many positive steps to address the observations made in the audit report.

3. Transit Kiosk Contract (10/2011)

This report contained twenty-one recommendations. Many related to improvements in the management of contracts and receivables.

This audit has clearly had the effect of heightening management's awareness of responsibility to manage adherence to terms and conditions of contracts.

The Auditors note that Finance management had responded to improve controls over receivables prior to the start of this audit by developing a formal Accounts Receivable Policy including set offs.

Finance management have responded by ensuring that key reports and controls are being elevated to higher levels within the organization. Leases and recurring contracts, accounts receivables, interest charges, vendor information, invoice processing and the purchasing bylaw, and contractor performance will all have been improved.

In conclusion, City Finance staff have responded to our audit observations in a very decisive and positive manner, investing a significant amount of effort into reviewing and updating policies, procedures and controls in the many areas that this audit touched upon. A number of Finance's planned improvements also appear to have been accelerated to address observations made in the audit report.

4. Emergency Water Main Repairs (4/2012)

This audit report contained eleven recommendations related to water main repairs and excavations. We also provided a further eleven suggestions to management through an audit memo at the end of the Water Main Emergency Repairs Audit.

Management accepted our recommendations to use trench boxes to potentially save the City \$322 thousand per year while freeing up 1,668 productive hours. Removal of one Relief Operator (labourer) from the repair crew could free up 1,807 additional hours, and redeployment of the Operator "B" to do preventative maintenance work within the area could free up 904 additional hours which could be used for other core Water/Wastewater work (worth an additional \$93 thousand per year).

Many of our observations were immediately addressed during the audit, and we have noted that that trench boxes have been purchased by the City, and are in use.

In conclusion, noting that this report was presented to Council in April 2012, management has also responded in a very decisive and positive manner to address observations made in our audit report.

iv. Quantifiable Cumulative Estimate Of Savings

ESTIMATED SAVINGS \$000's			
Year of Savings	2010	2011	Total
2010	\$ 402,800		\$ 402,800
2011	\$ 383,200	\$ 415,530	\$ 798,730
2012	\$ 383,200	\$ 415,530	\$ 798,730
2013	\$ 383,200	\$ 415,530	\$ 798,730
2014	\$ 383,200	\$ 415,530	\$ 798,730
2015	\$ -	\$ 415,530	\$ 415,530
Total	\$ 1,935,600	\$ 2,077,648	\$ 4,013,248
(A)			
2011 Operating Costs (Auditor General's Office)		\$ 359,754	(B)
2011 Return On Audit Dollars Invested		\$ 5.78	(A/B)

Table 2

When completing audits, the Auditor General may identify cost savings or opportunities for cost savings that are adopted by management. These cost savings may be one time or ongoing. We estimated the value of changes if adopted by management of Water Main Repairs, to be \$415 thousand annually. These potential savings were a positive result of the audit, and were expected to be enough to offset costs of excavation practices utilizing trench-boxes.

Table 2 provides a summary by year of the estimated cumulative savings generated as a result of the audit recommendations adopted by management and projected forward over a five-year period. Table 2 also illustrates how \$5.78 dollars will potentially be saved for every dollar invested in the Auditor General's Office over the last year.

Table 3 provides details of observations made in our audit reports, where \$1.0 million of potential savings or recoveries was identified and quantifiable.

Estimated Savings from 2011-2012 Audit Reports Where Potential Savings Are Quantifiable					
Report Title	One-time Savings	Ongoing Annual Savings	Total	\$ Identified	Notes
Conventional Transit Services	\$ -	\$ -	\$ -	\$ 258,350	U-Pass Annual Loss (no report at contract renewal)
Handi Transit Services	\$ -	\$ -	\$ -	\$ 275,000	Potential From A 10% Shift To Reg Transit
Transit Kiosk and Café Contract Mgmt	\$ -	\$ -	\$ -	\$ 67,616	Additional Amounts Unclaimed
Transit Kiosk and Café Contract Mgmt	\$ -	\$ -	\$ -	\$ 30,084	Potential 2% Interest Claim (After Sept '09)
Audit of Watermain Emergency Repairs	\$ -	\$ 322,000	\$ -	\$ 322,000	Excavation Repair Efficiency (T-Box, 20Ton, 4 FTE)
Audit of Watermain Emergency Repairs	\$ -	\$ 93,530	\$ -	\$ 93,530	Certified Operator Hrs Free'd (2,711 @ \$23x1.5)
	\$ -	\$ 415,530	\$ 415,530	\$ 1,046,580	

Table 3

6) Continued Focus: Establishing A Sustainable Audit Function

In addition to performing audits, the Auditor General has continued to put a significant amount of effort into establishing a sustainable audit function for the City of Greater Sudbury. The success of our effort was shown through the positive conclusions of representatives of the Institute Of Internal Auditors (IIA) after they completed a peer review of our office in this past year. In their report, the IIA representatives noted that our office was in Full Compliance with Generally Accepted Government Auditing Standards. They also noted that "The Office of the Auditor General has established a solid foundation for the Internal Audit activity."

The IIA representatives also observed that "Establishing a new IA activity can be a very challenging experience", however, "All parties agreed on the importance of – and the need for – an effective Internal Audit activity."³

The following list shows our ongoing efforts and focus on establishing a sustainable audit function for the City of Greater Sudbury.

2011 – 2012 Administrative Activities

1. 2011 Annual Report – Auditor General's Office (8/2011)

Our first annual report summarized audit activities from 2010 to June 2011.

2. Introduction To Reporting On Internal Controls (9/2011)

In this report we reviewed limitations inherent in internal control systems that everyone across the organization should be aware of.

³ <http://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=8773.pdf>

3. The Audit Process and Government Auditing Standards (9/2011)

We spoke about the Government Auditing Standards that we follow, and our plans for a peer review in 2012. We also spoke about our audit process, and timelines for responses.

4. Audit Follow Up – Transit Shift Trading (9/2011)

In this report we assured Council that Transit Services management had responded in a positive manner to address observations made in our audit report.

5. Audit Follow Up - Cash Handling – Transit/Parking (10/2011)

We assured Council that Transit Services management had responded in a very decisive and positive manner to address observations made in our audit report.

6. 2012 Proposed Audit Work Plan (11/2011)

We went to the Audit Committee, seeking feedback on a list of proposed audits, any additional potential audits, and their desired order of completion. We gathered feedback used to develop our audit work plan for 2012. Amongst the audits proposed were: a Procurement Card Review, Purchase Cost Agreements Review, Transit and Arena Advertising Contract(s), and a Property Sales Process Review.

7. Update of Auditor General Audit Manual (11/2011)

We updated our Audit Manual to match a major revision of the Government Auditing Standards.

The effective date for changes to Government Auditing Standards for performance audits was for audits beginning on or after December 15, 2011.

8. The Role Of Auditing In Public Sector Governance⁴ (1/2012)

We shared professional guidance from the IIA with Council to explain the key elements of an effective audit activity. According to the IIA, "Although the means to accomplish them will vary, all government audit activities require:

- ✓ A formal mandate.
- ✓ Professional audit standards.
- ✓ Competent leadership.
- ✓ Competent staff.
- ✓ Organizational independence.
- ✓ Unrestricted access.
- ✓ Stakeholder support.
- ✓ Sufficient funding.

⁴ The Role Of Auditing In Public Sector Governance, The Institute of Internal Auditors / www.theiia.org , November 2006

9. 2012 Audit Work Plan (1/2012)

We incorporated Council's feedback into our plan, and the Audit Committee received the Auditor General's Audit Work Plan for 2012 as outlined in the report dated January 9, 2012 from the Auditor General.

10. 2012 Quality Assurance Review Preparation (1/2012)

Right from the start, (winter of 2009 and spring of 2010), we had developed our Quality Control System, and documented our processes in an Audit Procedures Manual designed to follow Government Auditing Standards. The quality assurance process requires a significant amount of information to be provided to the review team prior to their on-site work.

We reported to Council that we felt that we were well prepared for a quality assurance review planned for the end of February.

11. 2012 Quality Assurance Audit and Response (3/2012)

We were the auditees. We developed and provided our responses to the Institute of Internal Audit's recommendations and suggestions. Recent numbers indicate that the IIA has over 180 thousand members in over 190 countries.

12. Establishing Formal Audit Protocols (5/2012)

In response to recommendations and suggestions of the IIA, we developed a draft audit protocol and are obtaining management input towards a final document. Commitments include timely responses to requests for information, timely communication of potential findings during the audit, reporting findings objectively, and developing management responses by set dates.

For Information Only

Auditor General Workplan Status - Oct 2012

Presented To:	Audit Committee
Presented:	Tuesday, Oct 23, 2012
Report Date	Wednesday, Oct 17, 2012
Type:	Presentations

Recommendation

For Information Only

Summary

The purpose of this report is to update the Audit Committee on the status of the Auditor General's 2012 Audit Work Plan. It includes a list of the Auditor General's reports planned, delivered, and in progress.

The 2012 Audit Work Plan provided an overview of how the Auditor General intended to apply the resources allocated to the Auditor General's Office during 2012. The timing of those audits had been set while considering the Audit Committee's feedback on priorities received during the November 2, 2011 meeting.

Financial Impact

The recommendation in this report has no financial impact.

Background

As always, projects are identified where audit or review procedures are expected to present the greatest organizational value for the time and resources committed.

The Audit Work Plan is and was intended to be flexible and may be amended by the Auditor General as required. The bylaw establishing the Auditor General's Office provides that once established, "no deletions or amendments to the annual audit plan shall be made except by the Auditor General, however, Council may add to the annual audit plan by a two-third's majority vote."

Audit Workplan Status - Oct 2012

1. COMPLETED - Auditor General Office Peer Review Audit Results

Answers the question: Who audits the auditors?

Signed By

Auditor General

Brian Bigger

Auditor General

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- An external peer review conducted by independent audit professionals in accordance with Generally Accepted Government Auditing Standards

2. COMPLETED - Watermain Emergency Repairs

To identify opportunities in support of the achievement of value for money for water distribution system repair and maintenance operations

- Evaluate oversight and management of emergency water distribution system repair activities by city crews and contractors

3. COMPLETED - Impact of Changes To Road Design (Asphalt Grindings and Road Crossfall)

To identify opportunities in support of the achievement of value for money related to the impact(s) of significant changes to road design, and to ensure that asphalt assets are safeguarded (properly accounted for)

- Evaluation of engineering, managerial and financial controls over asphalt grindings assets
- Review of the management of road and asphalt tendering specifications (identifying highest and best uses of asphalt, recycling of the city's asphalt grindings)
- Evaluation of the impact of changes to road cross fall in the costs of repair road construction, remediation and replacement

4. POSTPONE - CANCEL? - Corporate Grants, Donations and Contributions

To improve communication and understanding of value for money achieved through corporate grants, donations and contributions, identifying budget pressures due to financial and "in-kind" expenditures in support of Council objectives

- Determine the number of different points of access organizations and individuals have to obtain CGS support through grants, donations and other contributions
- Determine the types (financial and in-kind) and the value of support provided to organizations and individuals to assist them in achieving stated goals and objectives
- Evaluate expenditure and compliance controls as compared to city policies, bylaws and resolutions

5. ADDED - IN PROGRESS - Advise On HCI Policy Proposal and Revisions

Council gave direction for the Auditor General to advise on an original HCI policy proposal, and revision(s) to HCI policy proposal. Audit resources were used in lieu of Corporate Grants, Donations and Contributions

6. IN PROGRESS - User Fees – Shift In Funding Sources (NOV)

To improve communication and understanding of value for money achieved through user fees, identifying budget pressures as a result of shifts in the balance between user paid (rate) funding and general (tax) funding for various programs

- User fees are generally increasing by 3 percent per year, while full program costs (direct operating, capital and overhead costs) may be increasing at a greater percent
- Review of the full operating and capital cost and sustainability of selected programs.

7. IN PROGRESS - Environmental Services Waste Management (JAN)

A review of waste management contract(s) to identify opportunities in support of the achievement of value for money in waste management operations

- Mid point evaluation of a ten(10) year waste collection contract awarded in January 2006
- Evaluate opportunities for improvement in the handling of citizen inquiries and concerns

8. CANCELLED - Falconbridge Infrastructure Stimulus Roads Project, Value For Money and Control

To learn from a completed project and identify opportunities in support of the achievement of value for money for roads construction projects

- Evaluation of engineering, managerial and financial risks, opportunities and controls experienced in this project
- Evaluate opportunities for improvement in capital project inspection and management for future projects
- Evaluation of the final outcome (did we get what we paid for?)

We have monitored a very detailed project review of this project by the recently appointed Director of Roads. Due to the combined efforts and improvements initiated by Roads and Finance management, we believe that the time and resource committment would exceed the additional value to the organization.

9. ADDED - IN PROGRESS - Advertising Revenue Agreement (Transit and Arena advertising) (JAN)

A limited scope review of an advertising revenue agreement that had been awarded through tender process, but revisions to a signed agreement had not been completed at the time of the Transit audit.

- Evaluate current contract and receivable management practices
- Evaluate efficiency, economy & effectiveness

Contact

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