

**Date:** 2017-11-05

**Subject:** **Analysis of Establishing a Permanent and Independent Auditor General**

**Contact:** Harry Schlange, CAO, 905-874-2625 and  
Joe Pittari, Commissioner of Corporate Services, 905-874-5922

**Recommendations:**

1. THAT the report from Harry Schlange, CAO, and Joe Pittari, Commissioner of Corporate Services dated November 5, 2017 to the Audit Committee meeting of November 20, 2017, re: Analysis of Establishing a Permanent and Independent Auditor General, be received; and
2. THAT the current audit structure be maintained given the increased independence, transparency and collaboration.

**Overview:**

- In March 2017 Council directed staff to further review and report back on the justification, role, function and cost implications of establishing a permanent and independent Auditor General for the City of Brampton.
- Based on review of relevant legislation, reports, discussions with other Canadian municipalities (including those with experience with Auditor General offices), and review of the City's current Internal Audit, staff have provided the key findings and analysis contained within this report.

**Background:**

At the March 8, 2017 Council meeting, in discussion of the Ontario Ombudsman's report, "Procuring Progress," Council directed staff to report on the justification, role, functions and cost implications of establishing a permanent, independent Auditor General, including an analysis of benefits and consequences.

The City of Brampton has employed an Internal Audit function since 1987 that reported directly to the CAO. In 2016, in cooperation with City Council, the independence of this function was strengthened through a direct reporting line to

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Council, through Audit Committee, with administrative support from the CAO's office. In addition, changes were made to the Internal Audit Charter and the Audit Committee Terms of Reference in September 2017 which further enhanced the independence of the function.

On March 1, 2017 Ontario Ombudsman, Paul Dubé, released his report into the City's non-competitive procurement practices, titled "Procuring Progress." The report commended the proactive initiatives that have been implemented to strengthen municipal practices. Mr. Dubé also concluded that this investigation did not identify anything that would warrant a formal report with recommendations. He did however offer fifteen (15) "suggestions" of which one was to consider appointing a permanent, independent Auditor General to provide external oversight.

## **Current Auditor General Situation in Ontario:**

Staff has undertaken the following research in preparing analysis between the Auditor General and Internal Audit models:

- Review of the Municipal Act
- Review of the Ombudsman's March 1, 2017 report
- Review of audit models that operate across Ontario
- Outreach to Canadian municipalities (CAOs and Chief Audit Executives) with experience in Auditor General and/or Internal Audit functions

The following key facts resulted from this research:

- While all Ontario municipalities are subject to external audits (Municipal Act section 296), a specific audit model is not prescribed by legislation (except for the City of Toronto).
- In 2017, of Ontario's 444 municipalities, two municipalities have an office of the Auditor General (Ottawa and Sudbury). Toronto is legislatively mandated to have an Auditor General;
- Hamilton has a hybrid model whereby the Director of Internal Audit is also the Auditor General;
- Markham has an outsourced model whereby a third party firm has been contracted to provide Auditor General services; and
- Since 2010, fewer municipalities have established an office of the Auditor General, in comparison to 2017.

For the most part, the role, functions and cost implications of each model (i.e. Auditor General versus Internal Audit) are the same with few notable differences:

1. Auditor Generals are appointed directly by Council for a fixed term (i.e. they are not considered employees of the corporation);
2. Auditor Generals have the power to subpoena (section 223.21 of the Municipal Act);
3. Auditor Generals have the protection with respect to confidentiality (section 223.22 of the Municipal Act);

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4. Auditor Generals have the protection with respect to a civil proceeding (section 223.23 of the Municipal Act), that is, Auditor Generals can issue press releases on its audit findings;
5. Auditor Generals have the guarantee of no waiver of solicitor-client privilege, litigation privilege or settlement privilege when disclosure is made (section 223.30 of the Municipal Act);
6. In terms of audit work plans, an Auditor General determines their respective work plan, whereas Internal Audit's work plan and schedule is reviewed and approved by Council – who can therefore have a say in which specific areas it would like to assess and when; and
7. A significant role for an Auditor General is to conduct audits related to outcomes from policies and the value received on those outcomes. Their recommendations are limited to those outcomes and not on policy as government is the policy setting body. Auditor Generals are precluded from reporting on policy.

Internal Auditors (as in Brampton's model) report directly to Council through an Audit Committee and add value in their ability to collaborate with management on not just identifying, but also being a partner in remediating any issues that arise in the municipality (i.e. a proactive, collaborative and consultative partnership whereby recommendations can be made to policies for its relevance, success (on outcomes) and cost-effectiveness).

### **Current Auditor General Situation in Canada**

In order to respond to the referred matter from Committee of Council in early March 2017, staff researched legislation and where possible also contacted other Canadian jurisdictions to compare Ontario audit models to a national context (specifically Halifax, Winnipeg, Calgary, Edmonton and the province of British Columbia).

In Alberta, through the province's Municipal Government Act (generalized), the cities of Calgary and Edmonton (noted above) chose to have City Auditors. These positions are established through a bylaw and appointed by Council to provide Internal Audit services. Upon review of the delegated powers established within this by-law, the Alberta model seems to operate similarly to the Ontario Auditor General model (i.e., full independence with no consultation and limited collaboration).

British Columbia operates an Auditor General for Local Government which completes value for money/performance audits. However, local governments can leverage the generalized legislation to appoint an Auditor General through their general corporate powers (i.e. by-laws). The province's largest city, Vancouver, for example maintains an Internal Audit section that reports through the City Manager's office and does not complete value for money audits.

Similar to Ontario, there are specific provisions in the Manitoba provincial legislation that requires the City of Winnipeg to have a City Auditor which operates as an Auditor General (e.g. City of Toronto Act 2006). Nova Scotia also operates similarly with specific legislation that mandates the existence of an Auditor General for the City of Halifax via the Halifax Municipal Charter.

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## **Current Situation in Brampton**

Two key overarching principles have been identified as critical and important by this Council: accountability and transparency. These principles are shared by the administrative leadership of the corporation. The City's commitment to open, transparent government administration and the Internal Audit function plays a critical role in helping the organization strengthen this commitment.

In September 2016, collaboratively with Council the independence of the Internal Audit function was strengthened through a direct reporting line to Council, through Audit Committee, with administrative support from the CAO's office. Changes to the Internal Audit Charter and the Audit Committee Terms of Reference in September 2017 have further enhanced this independence. A new Director of Internal Audit was hired in December 2016 and the updated Internal Audit methodology was implemented by January 2017.

### **Analysis:**

The competitive advantage associated with Brampton's audit model is that it enables a cooperative approach between audit and management whereby the Office of Internal Audit not only identifies issues of concern, but works alongside staff in a consulting capacity to advise on how best to address the issues. In the short time since Brampton's new model has been implemented, there have already been preliminary successes in this regard, including:

- Working alongside Service Innovation and Corporate Performance on new continuous improvement framework (in progress and ongoing);
- Worked collaboratively with IT to complete an IT risk assessment;
- Provided a comprehensive assessment of policy enhancement, efficiencies and cost effectiveness strategies for mobile phones;
- Reviewed and advised staff on enhancements to employee expense policies and SOP's; and
- Worked in collaboration with Brampton Libraries and the City's Corporate Services Divisions and Facilities Division to identify service enhancements and shared services opportunities to receive the best value for dollar.

As noted, this type of Internal Audit service delivery model and framework is a significant variation from that of an Auditor General, given that they are precluded from reporting on government policy and providing consulting services. Such advice and expertise offered by the Office of Internal Audit over the past 10 months as in the examples noted above has been invaluable, and the consulting provided by the Office of Internal Audit is helping to entrench a culture of openness and transparency across the corporation. This was further confirmed recently by Standard & Poor's in its report for the City of Brampton where they stated "restructuring within the last two years resulted in the strengthening of Brampton's budgeting practices, improvement in control measures and transformation of its senior management". Given that an

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Auditor General model does not foster such a framework of collaboration, it inhibits justification for such a model for Brampton.

While an Auditor General has some specific powers that Internal Audit does not have, municipalities of similar size with experiences with Auditor Generals have not had to use these additional powers. Given the extremely limited opportunities, the likelihood use of these additional powers, and that Internal Auditors are able to conduct most, if not all, of the same work as an Auditor General under then general powers of the Municipal Act 2001; again, it inhibits justification for such a model for Brampton.

While staff appreciates and respects the Ombudsman's suggestion to appoint an independent Auditor General, we also acknowledge that this recommendation was developed prior to the onboarding of the City's current Director of Internal Audit, changes to the Internal Audit Charter, Audit Committee Terms of Reference, and the updated Internal Audit methodology. Given the preliminary successes identified above, the consulting role performed by our Internal Audit function is becoming increasingly valued by the corporation and is a key enabler of changing the culture and maintaining two critical overarching principles important to Council: accountability and transparency.

### **Corporate Implications**

#### Financial Implications:

Based on discussions with other municipalities who have experience with an Auditor General, staff anticipate that ongoing operating costs associated with an Auditor General are comparable to resources currently allocated to Brampton's Internal Audit function. However, there would be a one-time transition cost ranging from \$150k to \$200k. Auditor Generals (and its staff) are not City employees and therefore may require annual operating funding for their administrative functions (similar to Brampton Public Library).

#### **Strategic Plan:**

This report achieves the Strategic Plan priority of good government through its three goals:

- Educate and engage citizens in open and accountable ways that show value and enhance the image of the city by responding to Council request to assess the justification and merit of establishing an independent Auditor General.
- Invest in a collaborative environment with supportive organizational and governance practices and policies by demonstrating the role and enhanced value provided by the current Internal Audit function at the City.
- Practice proactive, effective and responsible management of municipal assets and services by demonstrating that in either model (Auditor General or Internal Audit) exist to demonstrate accountability and transparency.

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### **Conclusion:**

The City of Brampton has undergone a significant and deliberate cultural change in the past 15 months. Key pillars to this cultural paradigm shift are commitments to innovation, continuous improvement, collaboration and cooperation across the organization to be a future ready city. The Internal Audit and Management Teams have worked together and created the momentum to make Brampton a leader in transforming municipal government.

In cooperation with City Council, the independence of the audit function was strengthened through a direct reporting line to Council, through Audit Committee, with administrative support from the CAO's office. In addition, changes were made to the Internal Audit Charter and the Audit Committee Terms of Reference in September 2017.

While staff appreciates and respects the Ombudsman's suggestion to appoint an independent Auditor General, it was proposed prior to these changes being put in place and fully implemented.

Given the commonalities and limited differences between the merits and limitations between an Auditor General and Internal Audit, limited justification can be made to suggest deviation from the City's current Internal Audit direction given its successes and commitment to accountability and transparency.

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Harry Schlange  
CAO

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Commissioner of Corporate Services