

Date: 2021-04-28

Subject: Analysis of Adopting an Auditor General Model

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Report Number: CAO's Office-2021-321

Recommendations:

That the report titled: “**Analysis of Adopting an Auditor General Model**” to the Committee of Council on April 28, 2021, be received.

Overview:

- **The purpose of this report is to address Resolution C028-2021 from the Council meeting on January 27, 2021 related to an Auditor General:**
 - “That the City of Brampton Council request staff to investigate the formation of a City of Brampton’s Office of the Municipal Ombudsman and Auditor General, reporting directly to Council”; and
 - “That staff report back to Council on the policies, governance, reporting structure, budget, and independence of the Municipal Ombudsman and Auditor General, including a comparison with other similar municipalities, and the various options for provision of the Ombudsman service, for Council’s consideration.”
- **Report #2021-463 from Legislative Services addresses the portion of Council’s motion related to a Municipal Ombudsman.**
- **On Dec 13, 2017, Council previously received a report titled: “Analysis of Establishing a Permanent and Independent Auditor General”. Council adopted motion #C388-2017:**
 - That the report from CAO and 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;
 - “That the current audit structure be maintained given the increased independence, transparency and collaboration.”

Background:

On January 27, 2021 Council requested staff to prepare a report to “*investigate the formation of a City of Brampton’s Office of the Municipal Ombudsman and Auditor General, reporting directly to Council*” and “*that staff report back to Council on the policies, governance, reporting structure, budget, and independence of the Municipal Ombudsman and Auditor General, including a comparison with other similar municipalities, and the various options for provision of the Ombudsman service, for Council’s consideration*”. The purpose of this report is to analyze and report back to Council regarding an Auditor General model for Brampton. A separate report from Legislative Services addresses the portion of Council’s motion related to a Municipal Ombudsman.

The City of Brampton has employed an Internal Audit function since 1987 that reports administratively to the Chief Administrative Officer (CAO) and all audit reports (open and in camera) will be presented to the Audit Committee for their review quarterly. This function’s objective is to provide “independent, objective assurance, and consulting services designed to add value to and improve the City of Brampton’s operations.” The Internal Audit Charter and Audit Committee Terms of Reference were most recently reviewed and approved by the Audit Committee on [September 8, 2020](#) and approved by Council on [Sept 16, 2020](#).

The formation of an Auditor General within Brampton was previously considered by Council in [2017](#) with the following motion under-taken: “*That the current audit structure be maintained given the increased independence, transparency and collaboration*”. Previously to this in December 2014, through Resolution C327-2014, Council appointed Mr. Jim McCarter, as an Interim Auditor-General, for the purpose of reviewing the City’s fiscal state.

Current Situation:

Staff has undertaken the following research in preparing this report:

- Reviewing the Municipal Act, section [223](#) titled: “Accountability & Transparency”;
- Review of the [Ontario Ombudsman’s Report](#), dated March 6, 2017;
- Review of Internal Audit functions and Auditor General models in other Ontario municipalities.

The following facts were ascertained from research into the Municipal Act:

- All municipalities are required to receive an external audit of their financial statements (see section [296](#));
- A specific internal audit model is not prescribed in the legislation;
- Municipalities are permitted to appoint an independent Auditor General (see section [223.19](#)).

The following facts were ascertained from research of other Ontario municipalities:

- Two municipalities have an office of the Auditor General (City of Ottawa and City of Sudbury);

- City of Toronto has both an internal audit function and an Auditor General. Legislatively through the City of Toronto Act, Section 177; Toronto is required to have the Auditor General.
- City of Hamilton has a hybrid model whereby the Director of Internal Audit is also the Auditor General.
- City of Markham and City of Windsor have an outsourced model whereby third-party consultants (MNP LLP & PWC, respectively) perform their Auditor General services.

As of 2021, the following municipalities have internal audit functions:

City of Mississauga	City of Kitchener	City of Toronto	Region of Halton
City of Vaughan	City of Thunder Bay	City of Hamilton	Region of Peel
City of Barrie	City of Guelph	City of Pickering	Region of York
City of Oakville	City of London (outsourced)	City of Oshawa (outsourced)	Region of Durham
City of Burlington	City of Windsor (outsourced)	Region of Waterloo	Region of Niagara (outsourced)

The following information about Ontario Auditor Generals was identified for comparative purposes:

City Name	Single/Lower/ Upper Tier	2020 Total Budget	2020 Total Budget as % of operating budget	2020 Labour	2019 vs. 2020 YOY change	Total FTE	# of completed audits in 2020	Reports to	Other responsibilities
City of Toronto	Single	\$6,700,800	0.050%	\$6,184,300	0.9%	32	7 (normally 13-14; lower in 2020 due to pandemic)	Council	'Fraud & Waste Hotline'
City of Greater Sudbury	Single	\$394,713	0.064%	\$351,455	3.1%	2	3	Council	'Wrongdoing Hotline'
City of Ottawa	Single	\$2,096,000	0.056%	\$1,402,000	6.2%	9	5	Council	'Fraud & Waste Hotline'
City of Hamilton	Single	\$1,138,750	0.062%	N/A	0.8%	7	10	City Manager and Audit Committee	'Fraud, Waste, and Whistleblower Hotline'
City of Markham	Lower	\$152,640	0.063%	0	0.0%	0	1	General Committee	
City of Windsor	Single	\$300,000	0.035%	0	0.0%	0	2	Council & Corporate Services Cmte	
City of Brampton (for comparison only)	Lower	\$1,223,000	0.162%	1,067,142	9.1%	8	13	CAO & Audit Committee	Corporate Fraud Hotline

Other Canadian municipalities that have an Auditor General include: Halifax, Montreal and Vancouver most recently as of [Nov 4, 2020](#) (in this case, Vancouver's Council opted to retain their Internal Audit staff of five to compliment the work of the new Auditor General). Other Canadian municipalities that have an internal audit function include: Calgary, Edmonton, Saskatoon, Winnipeg and Moncton.

Other transparency and accountability mechanisms currently in place at the City of Brampton include the:

- External Auditor (currently KPMG LLP) who performs an annual audit of the City's financial statement, which is required under the Municipal Act.
- City's Integrity Commissioner who investigate complaints relating to compliance by any member of the City of Brampton Council with respect to their alleged unethical behaviour, or violations of the Code of Conduct, in accordance with the City of Brampton By-Law 200-2014.

- Provincial Ombudsman whose role promotes fairness, accountability and transparency in the public sector by investigating public complaints and systemic issues within their jurisdiction.

Analysis – Policy:

From a policy perspective, a City by-law is recommended to establish an Auditor General model; this by-law should outline the following:

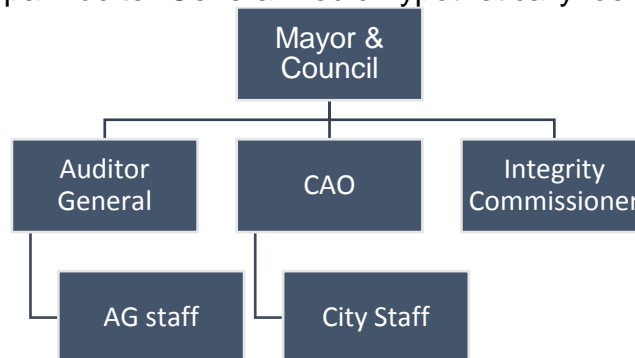
- Reporting & independence
- Powers and duties
- Mandate (i.e. whether the City's boards and agencies are included within the Auditor General's mandate such as Brampton Public Library);

Analysis – Governance & Reporting Structure:

The governance over an Auditor General is enshrined in the Municipal Act (see 239.19-1.1):

“The Auditor General shall perform his or her responsibilities under this Part in an independent manner.”

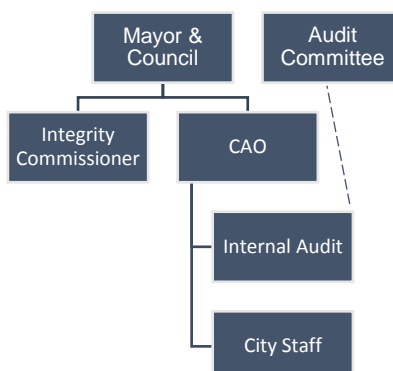
Auditor Generals at the municipal level typically report directly to Council and have a mandate to set their own work plan. This freedom allows the Auditor General to review any business process or program under the City's mandate at their own discretion, completely independent from the City's management and staff. Council may also request from time to time, that their Auditor General perform specific reviews or audits serving the public interest of the City. For illustrative purposes, the reporting structure of a municipal Auditor General would hypothetically look as follows:



Council would have the sole authority to hire or terminate the Auditor General which should be documented in the Auditor General's by-law. Council would also have the authority to set the appropriate annual operating and capital budget. Staff reporting to the Auditor General would be hired or terminated solely by the Auditor General.

In contrast, Internal Audit teams typically report functionally to the City's Audit Committee and administratively to the CAO, Commissioner of Corporate Services or Director of Finance. The independence of an Internal Audit function is defined in the

Internal Audit Charter which is approved by Audit Committee. The typical internal audit reporting structure appears as follows:



Governance options:

1. Status quo – retaining existing Internal Audit function
2. Adding an Auditor General model without Internal Audit (same as cities of Ottawa and Greater Sudbury)
3. Adding Auditor General on a full-time basis reporting directly to Council to compliment the Internal Audit function (same as Toronto, Vancouver)
4. Adding Auditor General on a contract/part-time (as needed basis) consistent with Council's requirements (same as cities of Markham, Windsor).
5. Hybrid model whereby the Director of Internal Audit is appointed by Council as the Auditor General with additional powers (same as Hamilton)

Analysis – Auditor General Budget:

The operating and capital budget of an Auditor General is set annually by the Council through the standard corporate budget process. The size of the budget effectively drives the number of audit projects able to be completed per year. Cities like Markham, Windsor and Sudbury have allocated modest budgets and therefore receive only 1-3 audit reports annually. Toronto and Hamilton receive 10+ audit reports annually for their larger investment and also operate a fraud/waste hotline as a value-added service. The most significant expense is expected to be labour (approximately 85% or higher).

Analysis – Auditor General vs. Internal Audit:

The Auditor General model is similar to the Internal Audit function with the following differences:

- The Auditor General's role is focused on "*quality of stewardship over public funds and for achievement of value for money in municipal operations*" (see [Section 223.19](#) of Municipal Act); whereas the role of an Internal Audit functions have a broader focus including operational, compliance and regulatory audits as well as risk/internal control consulting.

- Auditor Generals are appointed directly by Council; whereas Internal Audit leaders are hired by the CAO (and typically in collaboration with the Chair of the Audit Committee).
 - Note: In the case of the City of Vancouver, their Council formed a special purpose sub-committee of Council (called Auditor General Recruiting Committee) responsible for “*directing the search for and appointment of an Auditor General*”. The composition of this committee was five City Councillors with a dedicated budget of \$50,000 allocated by Council.
- Auditor Generals have the power to subpoena (section 223.21 of Municipal Act);
- The Auditor General is not required to be an employee (i.e. in the City of Toronto’s case, they are appointed to seven year terms);
- Auditor Generals have legal protection in the case of civil proceedings (see section 223.23 of Municipal Act);
- In regard to workplan, Auditor Generals determine their own respective workplan; whereas Internal Audit workplans and schedules are typically reviewed by and approved by Management and Audit Committee – who can therefore have influence on which areas get audited and when.

Corporate Implications:

Financial Implications:

Should Brampton City Council opt for an Auditor General model to complement its existing Internal Audit division, the financial implications would be driven by the size of the team, given that labour costs account for a significant majority of the annual operating budget. If Brampton City Council elect to convert its existing Internal Audit division to an Auditor General model, it is likely that the on-going operating costs would be comparable to today (\$1.223M in 2020 budget). In either case, one-time setup/conversion costs in the range of \$200K-\$1M would be required which include IT devices/licenses, facilities re-location, recruiting costs etc. These amounts are not identified in the 2021 operating budget.

Other Implications:

Should Brampton City Council elect to create an Auditor General, a dedicated City Bylaw would be required as well as updating the Internal Audit Charter and Audit Committee Terms of Reference.

Term of Council Priorities:

This report fulfils the Council Priority of a Well-Run City through providing information on an Auditor General model which falls within the realm of municipal accountability and transparency mechanisms.

Conclusion:

Establishing an independent Auditor General is permissible under section 223.19 of the Municipal Act and would further compliment the City's accountability and transparency functions including its: Integrity Commissioner, Internal Audit division, External Auditor (KPMG) and Ontario Ombudsman. Internal Audit functions are more common in Canadian municipalities; however many large urban single-tier cities operate Auditor General models or operate both.

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Attachments:

1. Appendix 1 - Analysis of Establishing a Permanent and Independent Auditor General, November 20, 2017
2. Appendix 2 - City of Brampton Council Minutes - Dec 13, 2017

Report Approval Details

Document Title:	Analysis of Adopting an Auditor General Model.docx
Attachments:	- Analysis of Establishing a Permanent and Independent Auditor General.pdf - City of Brampton Council Minutes - Dec 13, 2017.pdf
Final Approval Date:	Apr 23, 2021

This report and all of its attachments were approved and signed as outlined below:

No Signature found

Richard Gervais - Apr 23, 2021 - 10:46 AM

Mikkel Marr - Apr 23, 2021 - 3:00 PM

David Barrick - Apr 23, 2021 - 3:44 PM