


# Request for Recommendation Audit Committee



Type of Decision									
Meeting Date	January 28, 2010			Report Date	January 25, 2010				
Decision Requested	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No	Priority	<input checked="" type="checkbox"/>	High	<input type="checkbox"/>	Low
	Direction Only				Type of Meeting	<input checked="" type="checkbox"/>	Open	<input type="checkbox"/>	Closed

Report Title
Terms of Reference Illustrating Auditor's Approach to First Audit

Budget Impact/Policy Implication	Recommendation
<p>This report has been reviewed by the Finance Division and the funding source has been identified.</p> <p>There are no budget implications with this report.</p>	<p>That the first audit of 2010 be an emerging issue audit of the Miscellaneous Winter Roads Maintenance Program as outlined in the Auditor General's report dated January 25, 2010 be approved.</p>
<input checked="" type="checkbox"/> Background Attached	<input type="checkbox"/> Recommendation Continued

	Recommended by the Auditor General
	<p>Brian Bigger Auditor General</p> 

**Introduction:**

In the first meeting of the Audit Committee on Tuesday, December 8, 2009, the Auditor General presented the Audit Plan 2010 to 2015. Upon review of the Plan, the Committee agreed that they be provided with the Terms of Reference of the first few audits to provide a better understanding of the process as it is an important element in planning an audit.

Also, after discussion, the Committee had agreed that the first audit would be Summer Roads Maintenance Program.

**Purpose:**

The purpose of this report is to:

1. Provide information to the Audit Committee through the presentation of **SAMPLE** terms of reference for a cross functional audit of User Paid Revenues, and an emerging issue audit of the Miscellaneous Winter Roads Maintenance Program.
2. Recommend that the first audit of 2010 be an emerging issue audit of the Miscellaneous Winter Roads Maintenance program.

**Comments:**

The **SAMPLE** terms of reference for both the User Paid Revenues, and the Miscellaneous Winter Roads Maintenance Program are provided as an appendix to this report.

It should be noted that in accordance with the Audit Committee's wishes, the Auditor General has not officially started either audit. As a result, the attached terms of reference are very preliminary, and are for discussion purposes only. These terms of reference have not been forwarded for information purposes to senior management of the respective program areas and audit work has not been initiated.

Terms of reference for audit projects are important in providing direction and focus for the work undertaken. They also specify the background, scope and objectives of the review, as well as the expected reporting date. It is important to understand that the audit process is not restricted to those areas contained in the terms of reference.

**Contact:**

Brian Bigger,  
Auditor General

Tel: (705) 674-4455 ext. 4402

Attachment:

Appendix 1: **SAMPLE** Terms of Reference - User Paid Revenues

Appendix 2: **SAMPLE** Terms of Reference - Miscellaneous Winter Roads Maintenance

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**Appendix 1: SAMPLe Terms of Reference - User Paid Revenues**

<b>Department:</b>	<b>Finance</b>
<b>Division:</b>	<b>Emerging Issue Audit</b>
<b>Program / Activity:</b>	<b>Revenues &amp; Recoveries</b>
<b>Year of Audit:</b>	<b>2010</b>

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**A. Introduction/Background**

The Auditor General's 2010 Work Plan includes a review of Revenues and Recoveries as a cross functional audit. In this audit, the Auditor General will focus on elements of stewardship, control and compliance concerning user paid revenues. User paid revenues have a significant impact on the sustainability of many programs and services delivered to the public. The Auditor General has identified a significant decline in user paid revenues relative to actual operating costs for various programs over the past several years.

**B. Financial/Operational Highlights**

The Municipal Act authorizes municipalities to impose fees or charges for any activity or service that they provide. In an environment where reliable sources of funding are difficult to find, user fees and other revenues provide a way of reducing the reliance on property taxes by recovering an appropriate portion of the costs for various services from the user(s) that primarily benefit from them.

In 2008, user paid revenues contributed approximately 24% of the total fund revenues of the City of Greater Sudbury (CGS), while the provincial average is 32%. The rates for user fees are outlined in various CGS by-laws.

User fees can be used to provide a fair and equitable process that encourages accessibility and participation. They can also contribute to the public's effective and efficient use of City resources. Furthermore, they can provide flexibility to meet evolving social values and changing fiscal pressures.

**C. Key Financial/Operational Issues and Controls**

As part of the budgeting process, management annually conducts research and makes recommendations to Council regarding user fees, and user fee policies. Council will then review the recommendations and vote whether to change the current by-laws to reflect any changes to user fees. A majority vote in Council is required to enact changes to the by-laws.

Policies and principles adopted by Council provide clear guidance and direction to staff. They ensure continued alignment between Council's objectives and the ongoing maintenance and development of user fees and their rates.

Consideration of full operating, administration and capital costs in establishing user fees (full program costing), is supportive of sound stewardship, and allows a proper evaluation of value for money. When the proportion of full program costs Council intend to be recovered through user fees is documented, and user fee bylaws are established, accountability and transparency are supported or enhanced. When the proportion of full program costs recovered through user fees

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## **Appendix 1: SAMPLe Terms of Reference - User Paid Revenues**

differs from the proportion initially set by Council, it indicates that an unintended shift from the by-law and Council's funding objectives has occurred. Furthermore, full costs of providing a good or service many change over time which requires the review of these costs to be completed on a regular basis.

### **D. Audit Objectives and Scope**

The objective of the audit is to review the user fee policies and procedures within various departments of the CGS. The audit will evaluate:

- The procedures for establishing user fees for various City services, as granted under the Municipal Act,
- The standards by which Administration can review, develop, implement and evaluate user fees to help support these services,
- The relationship between the fee development process and the development of cost recovery goals through subsequent business planning exercises.

The scope of the audit will include the review of user fee policies and procedures within Growth and Development Services, Community Development and Infrastructure Services.

### **E. Project Time Frame**

**Expected Reporting Date**  
**Audit Committee Meeting**  
**Planning**  
**Fieldwork**  
**Draft Report to Auditor General**  
**Draft Report to Client**  
**Audit Committee Meeting**

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**Appendix 2: SAMPLE Terms of Reference - Miscellaneous Winter Roads Maintenance**

<b>Department:</b>	<b>Infrastructure Services</b>
<b>Division:</b>	<b>Roads</b>
<b>Program / Activity:</b>	<b>Miscellaneous Winter Roads Maintenance</b>
<b>Year of Audit:</b>	<b>2010</b>

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**A. Introduction/Background**

The Auditor General's 2010 Work Plan includes a comprehensive review of the Roads Summer Maintenance program as a full program performance audit that is scheduled for July – August 2010.

In advance of conducting the Summer Maintenance program audit, the Auditor General has identified the Miscellaneous Winter Roads Maintenance program as a significant emerging issue, and has chosen to begin an audit of this program. The audit will focus on elements of value for money, including the effectiveness, efficiency and economy of management activities (planning, organizing, directing & controlling) for Winter Roads Maintenance and Repairs.

**B. Financial/Operational Highlights**

Although the audit has not been initiated, an initial comparison of 2009 budgeted vs actual expenditures indicates that approximately \$ 2.4 M was spent on winter roads maintenance / asphalt patching last year, with an approved budget of \$ 0.7M. Over expenditures were identified to Council through 2009 operating variance reports.

**C. Key Financial/Operational Issues and Controls**

The condition of our roads has a high impact on all citizens and their perception of City Administrators and Council. The recent State of the Community Report (2009 citizen survey) confirms a very significant gap between the importance of roads maintenance, and the effectiveness of the City in maintaining the roads. Citizens rated the maintenance of main roads as being the most important service provided by the City (92% - rated it important or very important), while only 29% of citizens rated the performance for this program as good or very good.

The audit will focus on an evaluation of the City's ability to deliver value for money from the citizens perspective. Our evaluation of the effectiveness, efficiency and economy of Winter Roads Repairs activities spans from citizen communications and planning, to organizing, directing and controlling the program.

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**Appendix 2: SAMPLE Terms of Reference - Miscellaneous Winter Roads Maintenance**

**D. Audit Objectives and Scope**

The objective of the audit is to evaluate opportunities to improve the value for money achieved through more effective, economical and or efficient management of the Winter roads Repair program. The audit will include an evaluation of:

- Compliance with and the effectiveness of budgetary controls
- Management, control and oversight of contractors, contractor performance and contractor billing
- The methods applied to identify potholes and other road faults pending and repaired,
- The methods used to prioritize the repairs,
- The methods used to complete timely, yet economical repairs based on sound management and accepted industry practices.

The scope of the audit will include the period from January 2009 to date.

**E. Project Time Frame**

Expected Reporting Date  
Audit Committee Meeting  
Planning  
Fieldwork  
Draft Report to Auditor General  
Draft Report to Client  
Audit Committee Meeting