

For Information Only

Audit Protocol For Auditor General and Staff

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Recommendation

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Signed By

Auditor General
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Digitally Signed Mar 14, 13

BACKGROUND

The Auditor General's Office was the subject of an independent peer review by representatives of the Institute Of Internal Auditors (IIA), in early 2012. The official purpose of the peer review, was to ensure that the Auditor General's Office was in compliance with Generally Accepted Government Auditing Standards (GAGAS).

In addition to the question of compliance with Generally Accepted Government Auditing Standards, Council requested that the IIA also provide additional suggestions on "opportunities for improvement of the Audit Activity". As per Council's request, the IIA did provide further opportunities for enhancement of the audit activity that were not NOT GAGAS conformance affecting. The IIA review team suggested that Audit Project Protocols be established with Staff: "Establish Audit Project Protocols – document commitments made by Audit and Clients in an effort to alleviate situations."

This report provides a formal protocol between Staff and the Auditor General's Office, detailing the audit communication and audit reporting process, and based on discussions with, and feedback gathered from the CFO, City Solicitor, City Clerk and Senior Management Team.

COMMENTS

Role Of The Auditor General

In 2009, Council appointed an Auditor General who according to the Municipal Act 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." [\[1\]](#)

In doing so, Council set the public expectation that the Auditor General's role would be unfettered. (the Auditor General's office would be adequately resourced, and not be blocked by Council or Staff.

"What impressed us the most" about Bigger, Dupuis said, "was his strong belief in the authority and independence of the office of the auditor general. It's something that we (council) believe in as well ... Mr. Bigger is going to have great independence." and,

"The auditor will have "free access to all resources and all records at the City of Greater Sudbury" in order to do his job, Rodriguez said.^[2]

Role Of Council

In 2010, the public elected a council who is responsible for holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations.

Councillor Stewardship Role

To be effective in this stewardship role, you have appointed an Auditor General to assist you. In doing so, you have also set the public expectation that the Auditor General's role would be supported by council, to assist you in achieving and clarifying the following:

The Municipal Councillor's Guide states:

"Part of your role, together with the rest of council, is to ensure that administrative policies, practices and procedures are in place to implement the decisions of Council".

"Council should be satisfied that policies are in place on staff reporting requirements and processes to help ensure that:

- Policies adopted by council are being implemented.
- Staff are administering services and programs as council intended
- Rules and regulations are being applied correctly and consistently, and everyone is being treated equally.
- Funds are being spent only as authorized, and the municipality's resources (financial and otherwise) are being used as efficiently as possible.

There is a fine line between council's overall stewardship of the municipality and the administration's management of day-to-day activities. Council monitors the implementation of its approved policies and programs, but the practical aspects of its implementation and administration are a staff responsibility." ^[3]

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

^[2] <http://www.thesudburystar.com/2009/05/20/new-auditor-will-have-free-reign-comment-on-this-story>

^[3] Municipal Councillor's Guide <http://www.mah.gov.on.ca/Page8390.aspx>

Audit Protocol

The Auditor General conducts audits of various program areas in the City. To facilitate the completion of these audits as well as the reporting of audit results and management's response to audit recommendations, the Auditor General and the Chief Administrative Officer (CAO) have agreed on the key requirements and timelines to guide both AG and Staff.

In general terms, the audit communication and reporting protocol is as follows:

Audit Process

1. Preliminary consultation
2. Audit Start Letter
3. Opening interview
4. Planning and Familiarization
5. Terms of Reference For Audit Fieldwork
6. Fieldwork
7. Exit Meeting

Audit Reporting Process

1. Draft Auditor General Report & Supplementary Audit Memo
 - (i) The Auditor General will provide a draft report to the division head, the Finance contact, and other applicable staff for review and comments within one week of the exit meeting.
2. Preliminary Management Response To Draft Report
 - (i) The Auditor General will allow divisional staff two weeks to provide comments on the draft report and a preliminary response to each of the recommendations. During this period, the AG and divisional staff should discuss various parts of the draft report, as necessary, to identify areas where there is agreement as well as those issues where further discussion is required.
 - (ii) The division head will forward her/his final comments on the draft report and preliminary management response to each recommendation to the Auditor General, within the two weeks.
3. Final Auditor General Report
 - (i) The Auditor General will consider the division's comments, revise the report as he/she deems appropriate, and within one week, forward a final report to the division head for review and final management response.
 - (ii) The Auditor General will allow divisions one week to provide him/her with their final management response, depending on the nature/complexity of the report.
4. Final Management Response
 - (i) Division heads shall forward their final management response to the Auditor General for his/her review and any comments within the timeframe requested. A copy should also be provided to the General Manager, the CFO, City Solicitor and CAO.
 - (ii) The Auditor General /divisions will have one week in which to address any concerns regarding the management response.
5. Report To Audit Committee
 - (i) Final Audit Reports will be attached to Agendas Online, and public agendas in accordance within established requirements and deadlines.

Timelines

It is important to note that in finalizing Auditor General and management response reports, there may be situations where some deviation from the timelines provided for in this protocol, is either required or appropriate.

In these situations, the Auditor General and divisional staff should agree on a timetable that allows the committee agenda deadline to be met and at the same time gives both parties adequate time to review, comment and finalize their respective reports.

If a revised timetable is required, the SMT member, CAO and CFO should be advised.

Auditor General Access to Information

The Auditor General will request access to any files within the possession or under the control of the City (including any files within the possession or under the control of the City Solicitor) that the Auditor General considers necessary for an ongoing audit that he is conducting, and an audit that he is thinking of conducting but attempting to determine whether it was desirable to conduct the audit, the determination of which might depend upon a review of certain files. Any such files (or documents within files) requested by the Auditor General that Legal Services considered to be privileged would be identified as such by Legal Services, so that the Auditor General would be aware that these files/documents are privileged, and would treat them with the appropriate heightened level of security. (This would include presenting any information gained from such documents only at closed meetings of Council unless Council directs otherwise.)

In accordance with s. 223.20 (2) of the *Municipal Act*, the decision as to whether a file/document is necessary for an audit is that of the Auditor General:

Access to records

(2) The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality, the local board, the municipally-controlled corporation or the grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this Part.

In accordance with the above, all divisional staff shall cooperate fully with the Auditor General's Office during an audit, and ensure the Auditor General's staff have access to all information requested as well as other information material/relevant to the audit in progress.

Timely Response

Timely response to audit requests and questions is a key element of an efficient and effective audit process established to assist Council. It is expected that the timeliness of responses to requests and questions will be equivalent to the timeliness provided to individual members of Council.

Audit Scope

The Auditor General may report on issues outside the scope of the audit, if he/she deems that the issues are significant. The CAO, CFO and General Manager will be notified if the scope and timelines for completion of the audit change significantly.

Supplementary Audit Memo

Where applicable, the Auditor General will also provide a supplementary audit memo to the division head and the Finance contact for his or her review and consideration. The supplementary audit memo will contain beneficial, yet, less material observations, findings and recommendations identified, relative to the audit scope and objectives, but not included in the main report.

The supplementary audit memo will be a public document once final, and will be provided to City Council on a request basis. Management responses will not be required for these items.

Confidentiality of Working Papers

The Auditor General is not required to provide access to confidential working papers in the hands of the Auditor General. The decision as to whether specific working papers will be shared in support of their findings is that of the Auditor General.

CONCLUSION

The documentation of a formal audit communication and reporting protocol is a useful exercise.

However, at this time, the Auditor General still needs to report that they have faced challenges that can threaten the auditors' ability to perform their work in an independent manner. The success of the Audit function is highly dependent on the level of cooperation, and quality of stewardship established and maintained by Council and city administrators. In 2010, the public elected a council who is responsible for 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 Auditor General will be better able to assist the Council in fulfilling their legal responsibilities as councillors, when acceptance of this accountability is clear.

Brian Bigger, CGA, CRMA, HBCOM

Auditor General

Introduction

This protocol outlines the respective roles and responsibilities of the Auditor General's Office, and management in the course of an audit and the opportunities for consultation during the audit process.

1. Purpose and Responsibilities Of The Auditor General's Office

- a. The creation of an Auditor General's Office is intended to foster and support transparency and accountability to the public. The Auditor General is here to effect positive change, to make the City a better city.
- b. The appointment of an Auditor General is a legislative appointment made in an open Council meeting by the Council with authority provided to the Council in s. 223 of Municipal Act 2001.

The Municipal Act defines the role and authority of the Auditor General to assist the Council in holding

- (a) itself
- (b) and its administrators

Accountable for

- (a) the quality of stewardship over public funds,
- (b) the achievement of value for money in municipal operations

2. Independence

- a. The Municipal Act 2001 requires the Auditor General to perform his or her responsibilities in an independent manner, and that same legislation provides the Auditor General with legislated powers that are unique to the Auditor General. These powers are intended to ensure that the Auditor General is unfettered in the performance of his or her responsibilities, and in the ability to perform those responsibilities in an independent manner.
- b. The Auditor General reports to City Council, and administratively through the CAO's office.
- c. The Auditor General 's Office has no direct authority or responsibility for the activities it reviews. The Auditor General 's Office has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

3. Authority and confidentiality

- a. Through provincial legislation (Municipal Act 2001), the Auditor General is bound to secrecy over personal or privileged information. All records, documentation and information are used solely for performance of the responsibilities of the Auditor General.
- b. Subject to paragraph 7 of the Audit Process and the Municipal Freedom of Information and Protection of Privacy Act (i.e. reasonably required access to perform a proper function). Staff of the Auditor General 's Office are authorized to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Auditor General considers necessary to enable the Auditor General 's Office to perform its responsibilities.

4. Standards and Values

- a. Audit activities are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as "The Yellow Book" standards..

5. Planning and Consultation

- a. The Auditor General's Office prepares an annual audit work plan in consultation with the Audit Committee and senior management. The audit work plan is based on the Auditor General Office's assessment of the risks facing the City of Greater Sudbury and of the business improvement opportunities available to the City of Greater Sudbury.
- b. The annual audit work plan is presented to the Audit Committee, and is available on the City of Greater Sudbury internet site.
- c. In addition, audits not on the audit work plan can be initiated directly by the Auditor General (AG), or by 2/3 majority vote of Council.

Audit Process

1. Protocol for Finalizing Auditor General Reports & Management Response and Implementation of Audit Recommendations Reports

The Auditor General conducts audits of various program areas in the City. To facilitate the completion of these audits as well as the reporting of audit results and management's response to audit recommendations, the Auditor General and the Chief Administrative Officer (CAO) have agreed on the key requirements and timelines outlined below to guide both AG and divisional staff.

The various stages in the audit process are outlined below.

2. Preliminary consultation

Prior to commencing an audit the Auditor General will consult with the relevant senior manager on the:

1. general objectives and scope of the audit
2. likely commencement date and duration
3. identification of a key divisional or program, and finance contact for the audit.

3. Audit Start Letter

An audit start letter will be issued to provide let the key divisional or program contact(s) and Finance contact know that the audit is being started, to introduce the Auditor(s) and to set up opening interviews etc.

4. Opening interview

An opening interview will be conducted at the start of the audit with management and Finance contact of the area to be reviewed. The purpose of the opening interview is to:

1. enable the audit team to meet key staff of the area being reviewed
2. clarify the initial objectives, scope and timing of the audit
3. provide an opportunity for staff of the area being reviewed to present their views and perspectives on the matters subject to audit
4. introduce the plan for conducting the audit in terms of timing, duration, staff involvement, and
5. arrange access to buildings, personnel, files, systems and data in order to commence the planning stage.

5. Planning and Familiarization

The purpose of the planning stage is to:

1. Develop the auditor's understanding of the program
2. Involve management in the identification and evaluation of risks and opportunities which impact the audit scope, objectives and audit program

3. Finalize the plan for conducting the audit in terms of timing, duration, staff involvement, and
4. Develop the formal terms of reference for the audit fieldwork

6. Terms of Reference For Audit Fieldwork

- a. The Auditor General will provide the division head with a copy of the terms of reference, outlining the intended objectives, scope and timelines for completion of the audit.
- b. A copy of the terms of reference will also be provided to the CAO, CFO and City Council for information.

7. Auditor General Access to Information

- a. The Auditor General will request access to any files within the possession or under the control of the City (including any files within the possession or under the control of the City Solicitor) that the Auditor General considers necessary for:
- b. an ongoing audit that he is conducting, and
- c. an audit that he is thinking of conducting but attempting to determine whether it was desirable to conduct the audit, the determination of which might depend upon a review of certain files. Any such files (or documents within files) requested by the Auditor General that Legal Services considered to be privileged would be identified as such by Legal Services, so that the Auditor General would be aware that these files/documents are privileged, and would treat them with the appropriate heightened level of security. (This would include presenting any information gained from such documents only at closed meetings of Council unless Council directs otherwise.)
- d. In accordance with s. 223.20 (2) of the Municipal Act, the decision as to whether a file/document is necessary for an audit is that of the Auditor General:

Access to records

(2) The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by the municipality, the local board, the municipally-controlled corporation or the grant recipient, as the case may be, that the Auditor General believes to be necessary to perform his or her duties under this Part.

- e. In accordance with the above, all divisional staff shall cooperate fully with the Auditor General's Office during an audit, and ensure the Auditor General's staff have access to all information requested as well as other information material/relevant to the audit in progress.
- f. Timely response to audit requests and questions is a key element of an efficient and effective audit process established to assist Council. It is expected that the timeliness of responses to requests and questions will be equivalent to the timeliness provided to individual members of Council.

8. Fieldwork

- a. Auditors will endeavor to maintain on-going discussions with management as findings emerge, conclusions are developed, and if significant amendments are made to the audit scope or timeline.
- b. At roughly the mid-point of the audit fieldwork, a formal meeting will be sought with the division head to discuss the audit program and any emerging issues.
- c. The Auditor General may report on issues outside the scope of the audit, if he/she deems that the issues are significant. The CAO, CFO and General Manager will be notified if the scope and timelines for completion of the audit change significantly.

9. Exit Meeting

- a. Upon the completion of their fieldwork, Auditor General staff shall meet with divisional staff to discuss the results, conclusions and preliminary recommendations from the audit work completed.
- b. Auditor General staff will inform the General Manager of the date and time of the meeting so that the General Manager can attend this meeting to understand issues and opportunities.
- c. The Auditor General is not required to provide access to confidential working papers in the hands of the Auditor General. The decision as to whether specific working papers will be shared in support of their findings is that of the Auditor General.
- d. Original documents will be returned to the appropriate division once they are no longer required by the Auditor General.
- e. Divisional staff should highlight any factual inaccuracies, compensating controls and agreement/disagreement with audit conclusions/recommendations. To avoid any misunderstandings, and where appropriate, the Auditor General may ask divisions to provide their comments to the Auditor General in writing.

- f. Auditor General staff will advise the respective divisional staff of any additional issues that surface during the Auditor General 's review of his/her staff's audit work (that were not covered in the exit meeting), so that divisional staff can provide their comments to the Auditor General for consideration, prior to the issuance of the draft report.

Audit Reporting Process

1. Timelines

It is important to note that in finalizing Auditor General and management response reports, there may be situations where some deviation from the timelines provided for in this protocol, is either required or appropriate.

- a. In these situations, the Auditor General and divisional staff should agree on a timetable that allows the committee agenda deadline to be met and at the same time gives both parties adequate time to review, comment and finalize their respective reports.
- b. If a revised timetable is required, the SMT member, CAO and CFO should be advised

2. Draft Auditor General Report & Supplementary Audit Memo

- a. The Auditor General will provide a draft report to the division head, the Finance contact, and other applicable staff for review and comments within one week¹ of the exit meeting. The draft audit report will contain the more material observations, findings and recommendations identified, relative to the audit scope and objectives.
- b. Where applicable, the Auditor General will also provide a supplementary audit memo to the division head and the Finance contact for his or her review and consideration. The supplementary audit memo will contain beneficial, yet, less material observations, findings and recommendations identified, relative to the audit scope and objectives, but not included in the main report.
- c. The supplementary audit memo will be a public document once final, and will be provided to City Council on a request basis. Management responses will not be required for these items.

3. Preliminary Management Response To Draft Report

- a. The Auditor General will allow divisional staff two weeks to provide comments on the draft report and a preliminary response to each of the recommendations. During this period, the AG and divisional staff should discuss various parts of the draft report, as necessary, to identify areas where there is agreement as well as those issues where further discussion is required.
- b. The division head will forward her/his final comments on the draft report and preliminary management response to each recommendation to the Auditor General, within the two weeks.

4. Final Auditor General Report

- a. The Auditor General will consider the division's comments, revise the report as he/she deems appropriate, and within one week, forward a final report to the division head for review and final management response. The departmental General Manager, the CFO, City Solicitor and CAO should also be provided with a copy of the report.
- b. The Auditor General will allow divisions one week to provide him/her with their final management response, depending on the nature/complexity of the report.
- c. The Auditor General will allow the departmental General Manager, the CFO, City Solicitor and CAO that same period of time to provide him/her with concerns, depending on the nature/complexity of the report.

5. Final Management Response

- a. Division heads shall forward their final management response to the Auditor General for his/her review and any comments within the timeframe requested. A copy should also be provided to the General Manager, the CFO, City Solicitor and CAO.
- b. The Auditor General /divisions will have one week in which to address any concerns regarding the management response.
- c. The division's management response should be in table format and include, at a minimum, whether the division head agrees or disagrees with the audit conclusions and or recommendations, and what action will be taken by whom and by when.
- d. The management response should be provided as an Appendix to the Auditor General's report to Audit Committee.
- e. A copy of the final audit report with final management responses will be provided to Legal Services so that Legal Services can evaluate and advise the Auditor General :

1. in cases where the report is intended for an open Committee/Council meeting, whether there are any portions of the report that Legal Services consider to be more appropriate for a closed meeting; or
 2. in cases where the report is intended for a closed Committee/Council meeting, whether the contents of the report satisfy the requirements of s. 239 of the Municipal Act 2001 for entering into a closed session.
- f. A client satisfaction questionnaire will be sent with the final report. The division head should complete the client satisfaction questionnaire and return it to the Auditor General within one week. The Auditor General will follow up any feedback indicating possible shortcomings in internal audit performance.
 - g. Department staff will be provided with a copy of the presentation to the Audit Committee 1 or 2 days in advance of the meeting
 - h. Final Audit Reports will be attached to Agendas Online, and public agendas in accordance within established requirements and deadlines.
 - i. A separate staff report from the division head to Audit Committee, if considered necessary, should be tabled at the same meeting as the Auditor General's report.