



## STAFF REPORT ACTION REQUIRED

### Auditor General's Risk Assessment

<b>Date:</b>	June 22, 2015
<b>To:</b>	Toronto Public Library Board
<b>From:</b>	City Librarian

### SUMMARY

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The purpose of this report is to seek Board approval to request the Auditor General to perform a risk assessment of the Toronto Public Library Board. This report also responds to the Board request for information on the type and content of reports from the Auditor General, the City's internal auditor and the external auditors.

### RECOMMENDATIONS

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**The City Librarian recommends that the Toronto Public Library Board:**

1. requests the Auditor General to perform a risk assessment of the Toronto Public Library Board.

### FINANCIAL IMPACT

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This report has no financial impact beyond what has already been approved in the current year's budget.

The Director, Finance & Treasurer has reviewed this financial impact statement and is in agreement with it.

### DECISION HISTORY

At its meeting on March 23, 2015, the Board considered a communication dated January 29, 2015 from the Auditor General (Attachment 1) with an offer to perform a risk assessment of the Toronto Public Library Board. The Board deferred consideration of the offer for the risk assessment pending the outcome of a review of the Board committee structure as part of the Strategic Plan process. At the meeting, a request was made for information on the type and content of reports from the Auditor General, the City's internal auditor and the external auditors, and the outcome of any previous work performed by the Auditor General at Toronto Public Library (TPL).

## ISSUE BACKGROUND

The City's audit framework consists of three levels of audit services:

1. the Auditor General's Office reports directly to and provides assurance strictly for City Council;
2. the Internal Audit Division reporting to the City Manager was established to provide assurance and management consulting advice for the City's management team; and
3. as required by the City of Toronto Act, an external auditor is appointed by Council to perform the annual audit of the City's financial statements, including agencies, boards and commissions (ABCs).

The main distinction between the Auditor General and Internal Audit is that because of the Auditor General's independence, they cannot provide consulting and advisory services. To fill the void, the Internal Audit function was established to serve as a resource to management.

The Auditor General's responsibility does not include Toronto Public Library as outlined in the Toronto Municipal Code Chapter 3. The Internal Audit Division's responsibility does not include ABCs.

### **Auditor General**

Section 177 of the City of Toronto Act, 2006 formalized the appointment of an Auditor General for the City of Toronto. Under Section 178 of the Act, the Auditor General is responsible for "assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations."

As outlined in the Toronto Municipal Code Chapter 3, since TPL is not a local board (restricted definition), the Auditor General's authority does not extend over TPL, and this exemption became effective in 2009. However, the Municipal Code does make provision for the Auditor General to carry out audits for TPL at the request of the Board. Other boards not under the Auditor General's authority are Toronto Public Health and the Toronto Police Service. The fact that these three boards were not put under the jurisdiction of the Auditor General with the City of Toronto Act may be because they are covered by provincial governing legislation.

The Auditor General's Office effects its mandate by developing and carrying out a work plan that identifies and ranks projects to be completed based on a number of risk factors. The Auditor General's work plan is reported for information to Council through the Audit Committee. The Auditor General delivers on its mandate through the audit process, which is an independent, objective assurance activity designed to add value and improve an organization's operations. The audit process assists an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Audit reports completed by the Auditor General are forwarded to the Audit Committee along with a series of recommendations. Once the recommendations are approved by Council, they are required to be implemented by management.

### ***2006 Fines and Income Review at TPL***

At its meeting on February 20, 2006, the Library Board was advised that as part of their 2005 general work plan, the Auditor General would be conducting a Fines and Income Cash Collection Process review at the Toronto Public Library. At that time, the Library was under the authority of the Auditor General. The Terms of Reference for the review were refined to address fines and income, and the associated cash collection processes. The terms of reference also listed the audit objectives, which were to:

- assess the efficiency and effectiveness of cash collection and related processes for fines and income and identify opportunities for cost savings and revenue enhancement;
- assess the extent of compliance with applicable policies and procedures; and
- provide management with recommendations to improve the processing and administration of cash collection processes.

The field work started in 2005 and was completed in the first quarter of 2006; the report and recommendations were presented to the Library Board at its meeting on June 19, 2006. The Auditor General's report contained 32 recommendations, which included new and revised procedures, increased reporting and documentation, changes to systems, and additional reviews and checking with a view to improving operational controls, efficiency and effectiveness. While 75% of the recommendations were implemented by June 2007, the remaining eight recommendations took longer to implement as they related to the implementation of new systems for room bookings and the Integrated Library System, which were fully implemented by 2010. At the Library Board meeting on April 28, 2011, the Auditor General reported that there were no outstanding recommendations.

### **Internal Auditor**

The mission of the City's Internal Audit Division is to assist senior management meet their responsibilities for maintaining proper systems of internal controls, identifying and evaluating significant exposures to risks and helping strengthen risk management throughout the City.

The Internal Audit Division acts as a resource to the City, and its annual work plan consists of projects identified through their assessment of risks for City divisions, as well as requests for services from other divisions and ABCs.

Internal Audit achieves its mission by:

- selecting and conducting audits of various programs and business processes;
- conducting special investigations, including fraud investigations;
- responding to requests for audits from the divisions and ABCs; and
- providing advice and guidance to management in the design and development of new programs, processes and systems.

The Internal Audit Division reports to the City Manager on the adequacy and effectiveness of City processes, including recommendations for improvement, on an ongoing basis and informs the Audit Committee of its work plan for the following year and activities of the current year on an annual basis.

One of the recommendations coming out of the City's Shared Services Project is to enhance the use of the City's Internal Audit Division by agencies that do not have their own Internal Audit resources. TPL has agreed to this recommendation and discussions are underway to engage the Internal Audit Division.

### **External Auditors**

Under Section 139 of the City of Toronto Act, 2006, TPL is required to appoint an auditor licensed under the Public Accounting Act, 2004, who is responsible for annually auditing the accounts and transactions of TPL, and expressing an opinion (described as "attest" under the Municipal Code) on the financial statements of these entities based on the audit, and their opinion is based on their evaluation as to whether or not financial statements are "fairly presented". In other words, the audit provides reasonable assurance that the financial statements are not materially misstated.

An annual audit plan is presented to the Library Board by the external auditors, currently PricewaterhouseCoopers, with the last plan at the Board meeting on December 15, 2014. This plan outlines the auditor's responsibilities, general audit approach, identifies areas of audit risk within the TPL, the timetable for reporting and the scope of work to be conducted. The results of the annual audit on TPL's financial statements are reported to the Library Board by the external auditors. The auditors are responsible for the expression of an independent opinion on those financial statements. The financial statements themselves are the responsibility of management and are presented to the Library Board by management. The audited 2014 financial statements and audit results were presented to the Board at the meeting on May 25, 2015.

Internal control weaknesses observed during the audit are reported, and it is the role of the Board to consider these issues and to ensure that the recommendations contained in the management letter are implemented on a timely basis. Over 2010 to 2013, there were seven recommendations to improve internal controls and all were implemented, as reported by the external auditors. For the 2014 year-end audit, there was no new recommendation around internal controls.

The external auditors can also be contracted to perform specific work in other areas as required by TPL. For example, certain external grants stipulate that an external auditor needs to review the spending.

## COMMENTS

### Audit Committee – May 22, 2015

At its meeting on May 22, 2015, the Audit Committee considered *Amendments to the 2015 Audit Work Plan* for the Auditor General and adopted the following motions:

1. *City Council request the City Manager to undertake the necessary actions, including seeking amendments to the City of Toronto Act as part of the upcoming 5-year review if necessary, which would allow the Auditor General to:*
  - *undertake audits at any of the City's agencies, local boards and corporations which are currently outside of her jurisdiction; and*
  - *review any audits that have been undertaken by their Audit departments, in order to allow those projects to be included on future Audit Work Plans.*
2. *City Council formally request those agencies, local boards and corporations that are outside of the Auditor General's jurisdiction, to allow the Auditor General to undertake any audits she deems necessary.*

This recommendation was approved at the Council meeting on June 10 and 11, 2015.

### Auditor General's Risk Assessment

Every five years, the Auditor General proposes to perform a risk assessment of the operations of the City and those major agencies and corporations included in their mandate. The purpose of the detailed risk assessment, is to ensure that all significant areas of the City are evaluated from an audit risk perspective by using uniform criteria and quantitative evaluations to identify areas that may warrant audit attention. Based on the exemption under Municipal Code Chapter 3, TPL was not included in the Auditor General's city-wide risk assessment process in 2014. Attachment 2 is the report to Audit Committee, AU 15.5, *Auditor General's Risk Assessment of the City and its Major Agencies and Corporations*.

On January 29, 2015, Beverley Romeo-Beehler, Auditor General, wrote to the Library Board Chair offering to provide an independent risk assessment for TPL. While the risk assessment will involve significant work, TPL will benefit from risk assessment reviews and use the information to strengthen controls and address potential risk areas.

## CONCLUSION

The Auditor General's responsibility does not include Toronto Public Library, but the Board may request the Auditor General to perform an audit. The recommendation in this report is for the Board to request the Auditor General to perform a risk assessment of the Toronto Public Library Board in 2016.

## **CONTACTS**

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## **SIGNATURE**

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Vickery Bowles  
City Librarian

## **ATTACHMENTS**

- Attachment 1: Auditor General's Risk Assessment – January 29, 2015 Letter to the Chair,  
Toronto Public Library Board
- Attachment 2: AU 15.5 Auditor General's Risk Assessment of the City and its Major  
Agencies and Corporations – May 12, 2014 Report to the City's Audit  
Committee