



Building Markham's Future Together
Journey to Excellence

Auditor General

Presentation to General Committee

April 13, 2015

Agenda

1. Purpose
2. Legislative Framework
3. Background
4. Critical Success Factors
5. Key Decisions
6. Staff Recommendations
7. Questions

1. Purpose

- At the January 12, 2015 General Committee meeting staff were directed to report back on the hiring of an Auditor General (AG)

2. Legislative Framework

- In 2007, the Province amended the Municipal Act (“the Act”) to address a number of issues largely resulting from the Bellamy & Sills inquiry
- The changes to the Act reflected growing public concerns for ensuring accountability & transparency in municipal administration

2. Legislative Framework

- The legislative amendments included the creation of a new Part 6 of the Act dealing solely with “Accountability & Transparency”
- Among other things, Part 6 of the Act now permits Ontario municipalities to appoint an AG to assist Council in holding itself & municipal administrators accountable for the quality of stewardship over public funds & for the achievement of value for money in municipal operations.
- The responsibilities of an AG do not duplicate those of the municipal external auditor (e.g., KPMG in Markham)

2. Legislative Framework

- In accordance with Section 223.19 of the Act, the AG must perform their duties in an independent manner & has powers under the Public Inquiries Act
- AG may delegate in writing to any person other than a Member of Council, any of their powers & duties
- AG is not required to be a City employee
- AG is entitled to unrestricted access to all City held books, accounts, financial records, electronic data processing records, reports, files & all other papers, things or property belonging to or used by the City

3. Background: Markham's Previous Auditor General

- **October, 2007** – Markham City Council approved the AG's position & scope of services
- **May, 2008** – Markham City Council appointed an AG for a 3 year contract with the possibility of a 1 year extension
- Markham's AG was responsible for submitting a bi-annual (six month) Audit Plan to General Committee & reporting out quarterly to General Committee on her progress
- The Audit Plan was created by the AG & no deletions/amendments were permitted to be made to the Plan, except by the AG herself. Council, if desired, could add to the Plan by a majority vote

3. Background: Current Municipal Context

- Only 3 Ontario municipalities currently have an AG; 4 have vacant AG positions
- 4 municipalities have Internal Audit functions (performed by staff); Toronto has both an AG & an Internal Audit function

Municipality	Auditor Status
Brampton	Auditor General (contracted, as needed)
Hamilton	Internal Auditor
Markham	Auditor General (vacant)
Mississauga	Internal Auditor
Oakville	Internal Auditor
Oshawa	Auditor General (vacant)
Ottawa	Auditor General
Sudbury	Auditor General (vacant)
Toronto	Auditor General & Internal Auditor
Vaughan	Internal Auditor
Windsor	Auditor General (vacant)

3. Background: Current Federal/Provincial Context

- Both the Federal & Provincial governments have AGs

	Federal	Provincial
Salary	\$322,900.00	\$219,396.00 (2012)
Term	10 years, non-renewable	10 years, non-renewable
Reporting Structure	Parliament	Ontario Legislature
Scope of Work	<ul style="list-style-type: none"> Financial audits Performance audits Special examinations 	<ul style="list-style-type: none"> Attest audits of the public accounts and government agencies Value-for-money audits Special assignments Review of Government advertising
Fact Check/Opportunity for Management Response	Yes	Yes

4. Critical Success Factors

- The following are key to the success of the AG Role:
 - ✓ Actual & perceived independence
 - ✓ Transparency
 - ✓ Efficiency
 - ✓ Value for money
 - ✓ Quality of auditing

5. Key Decisions

Before Markham re-appoints an AG, the following key decisions are required:

1. Mandate/scope
2. Reporting structure
3. Term of contract
4. Audit Plan Approach
5. Service Model Options
6. Recruitment Model

5. Key Decision: Mandate/Scope

- The previous AG's mandate was:
 - To deliver a program of audit work aimed at assisting Council in holding itself & its administrators accountable for the quality of stewardship over public funds & for the achievement of value of money in operations*
- The former AG's mandate was approved by Council through General Committee (GC)
- This mandate is consistent with AG mandates in other municipalities/levels of government
- Staff recommend maintaining this mandate for the new AG

5. Key Decision: Reporting Structure

- Toronto & Ottawa's AGs report to Council via an Audit Committee
- Markham's previous AG reported to Council through GC
- Staff recommend that Markham's new AG continue to report to Council through GC because:
 - It is consistent with reporting protocol followed by the Markham's other Accountability Officers (Integrity Commissioner & Closed Meeting Investigator); and
 - It will allow for thorough discussion & debate prior to final Council approval

5. Key Decision: Term of Contract

- Non-renewable contracts for Accountability Officers are preferred as they increase the perceived & actual independence of these Officers
- Toronto & Ottawa's appoint their AGs for a 7 year, non-renewable term
- Markham's previous AG's term of contract was for 3 years, with the option of a 1 year extension
- Staff recommend the new AG be appointed for a four year term (not coinciding with the term of Council)

5. Key Decision: Audit Plan

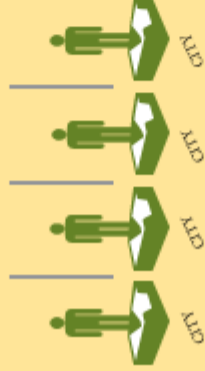
- All of the AGs in Ontario can amend their Audit Plans in some manner (i.e., additions, deletions) based on Council direction*
- Staff recommend that amendments to the Audit Plan of the new AG be permitted with 2/3 support of Council (The same process followed for Markham's previous AG)

* Toronto: additions to Plan require 2/3 support of the Audit Committee;
Ottawa: additions and deletions to Plan require majority of Audit Committee support

5. Key Decision: Service Model Options

OPTION 1: IN-HOUSE MODEL

Council



The city would hire an In-House AG on a full-time contract basis to perform audits, based on the audit plan.

OPTION 2: HYBRID/CO-SOURCED MODEL

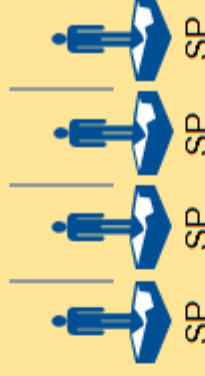
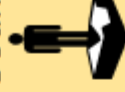
Council



The In-House AG would contract with an outside Service Provider (SP), as required to undertake more specialized audits, based on the audit plan.

OPTION 3: OUTSOURCED MODEL

Council



An outside Service Provider (SP) would perform the audits, providing end-to-end services, based on the audit plan.

5. Key Decision: Service Model Options

Option 1: In-House (model used by Markham to appoint the previous AG)

Pros	Cons
AG has on-site access to Staff/Members of Council	Potential for perceived lack of independence from the City
	Recruitment costs to hire AG
	Capacity of AG (i.e., they are one person)
	Audits may be limited by expertise of AG
	City support staff required to assist AG

- Staff do not recommend this option

5. Key Decision: Service Model Options

Option 2: Hybrid/Co-Sourced Model

Pros	Cons
AG has on-site access to Staff & Members of Council	Perceived lack of independence from the City
AG can leverage firm's capacity, expertise & infrastructure as needed	Recruitment costs to retain both an internal AG & an outside firm
	Increased cost for an in-house individual AG & an outside firm
	City support staff required to assist AG

- Staff do not recommend this option

5. Key Decision: Service Model Options

Option 3: Fully Outsourced Model

Pros	Cons
Increased perception of independence (no City employees)	Cost to prepare & evaluate RFP
Access to a wider range of expertise of an external firm	Will require staff review of firm's billings
City support staff not required	Will require staff point of contact to monitor & manage costs.
Direct access to Staff/Members of Council	

- Staff recommend this option as it best addresses all of the critical success factors discussed previously

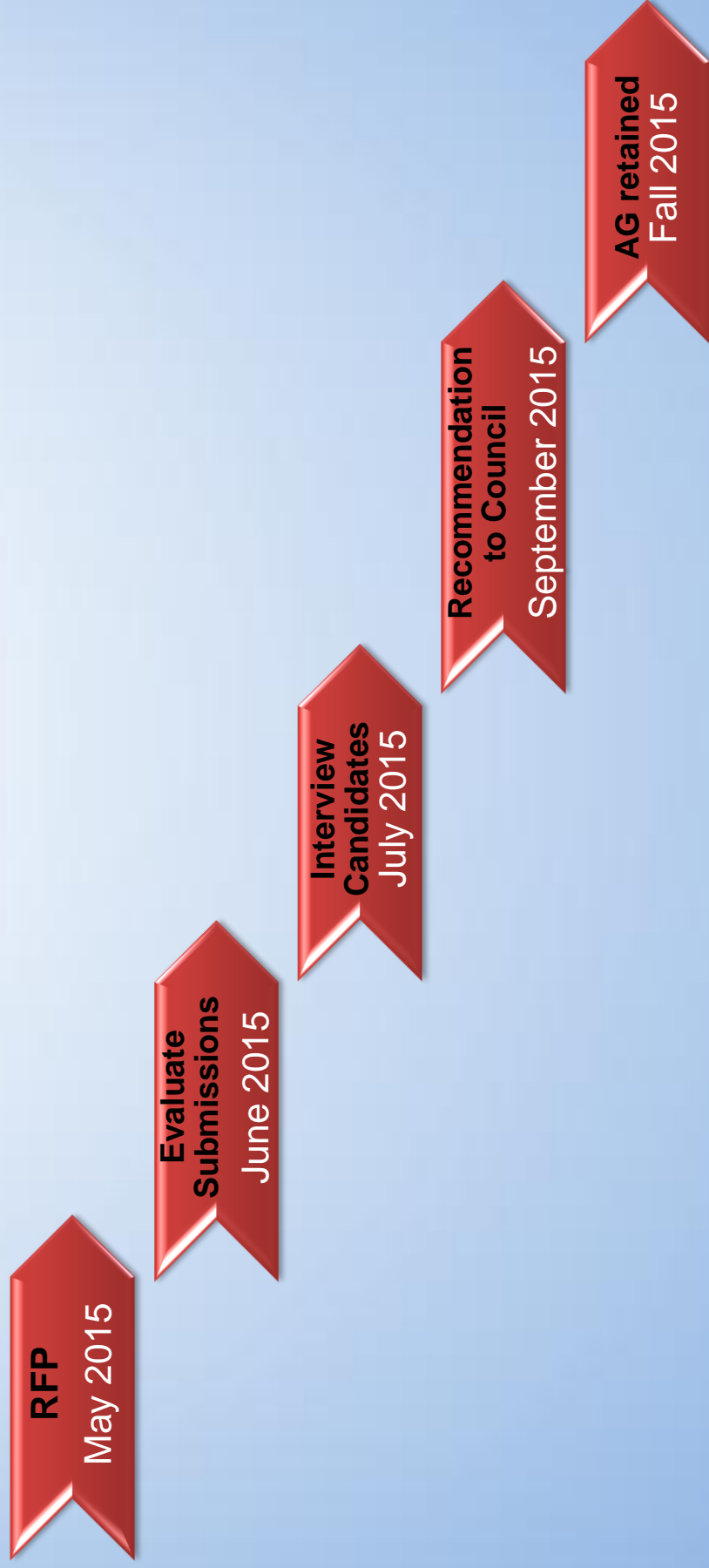
5. Key Decision: Recruitment Model

Request for Proposal (RFP)

- Staff recommend releasing an RFP for a new AG to ensure an independent/impartial recruitment process
- Terms & conditions will include:
 - A requirement for the AG to undertake 8-10 substantive audits over the four year contract period
 - A fixed fee of \$600,000 over the four year contract period*
- An RFP will be prepared in accordance with the City's Purchasing by-law & released in May 2015

* Note: The 2015 budget includes \$219,052 (salary and benefits) for an Auditor General, based on a grade level of 14-5.

Proposed Timeframe For Option 3 Recruitment



6. Staff Recommendations

- 1) That the AG's mandate be: to deliver a program of audit work aimed at assisting Council in holding itself & its administrators accountable for the quality of stewardship over public funds & for the achievement of value of money in operations;
- 2) That the AG report to Markham City Council through General Committee;
- 3) That the AG be appointed for a four year term (outside the term of Council)
- 4) That amendments to the AG's Audit Plan be permitted with 2/3 support of Markham City Council; & further
- 5) That the City of Markham implement an outsourced service model (option 3) for an AG & retain an AG through an RFP process



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Questions?