



## REPORT

Report Date: October 6, 2020  
Contact: Councillor Colleen Hardwick  
Contact No.: 604.873.7240  
RTS No.: 14079  
VanRIMS No.: 08-2000-20  
Meeting Date: November 4, 2020  
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TO: Standing Committee on Policy and Strategic Priorities

FROM: Municipal Auditor General Informal Working Group:

- Councillor Rebecca Bligh
- Councillor Adriane Carr
- Councillor Lisa Dominato
- Councillor Pete Fry
- Councillor Colleen Hardwick
- Councillor Sarah Kirby-Yung

SUBJECT: Establishing the Office of the Auditor General for the City of Vancouver

## RECOMMENDATION

- A. THAT Council direct the City Solicitor to bring forward for enactment, a By-law (the "By-law") establishing an independent Office of the Auditor General substantially in the form attached as Appendix "A" to this Report.
- B. THAT Council establish an Auditor General Committee pursuant to Section 161 of the *Vancouver Charter* and approve the Terms of Reference for the Auditor General Committee as set out in Appendix "B" to this Report.
- C. THAT if Recommendation B is approved, Council appoint the following members of Council to the Auditor General Committee:
  - a. Councillor Rebecca Bligh
  - b. Councillor Pete Fry
  - c. Councillor Michael Wiebe
  - d. Councillor Colleen Hardwick
  - e. Councillor Sarah Kirby-Yung
- D. THAT Council establish an Auditor General Recruitment Committee pursuant to Section 161 of the *Vancouver Charter* and approve the Terms of Reference for

the Auditor General Recruitment Committee as set out in Appendix “C” to this Report.

- E. THAT if Recommendation D is approved, Council appoint the following members of Council to the Auditor General Recruitment Committee:
- a. Councillor Rebecca Bligh
  - b. Councillor Adriane Carr
  - c. Councillor Lisa Dominato
  - d. Councillor Colleen Hardwick
  - e. Councillor Sarah Kirby-Yung
- F. THAT Council direct staff as set out in this report on the office space, technology, administrative and corporate services arrangements needed to support the establishment and operation of the AGO Vancouver.

*\*Pursuant to Section 161 of the Vancouver Charter, Recommendations B and D require a 2/3's vote of all members of Council.*

## **REPORT SUMMARY**

On July 10, 2020 the Informal Working Group presented its report back to Council, along with its recommendations to establish an Independent Auditor General Office for the City of Vancouver.

This report incorporated the recommendations the Canadian Audit and Accountability Foundation (CAAF) which was retained to assist with creating this new office. For convenience of reference the final report of the CAAF (“CAAF Final Report”) is attached as Appendix “D”.

Council unanimously approved the recommendations of the Informal Working Group and the CAAF and directed the City Solicitor to bring back a By-law for Council's approval and enactment for this purpose.

This Report includes the recommended form of By-law intended to achieve this purpose as well as additional recommendations to facilitate the establishment of the Office of Auditor General for the City via the Committees of Council required to be established to support the recruitment of the Auditor General as well as the Auditor General Committee of Council.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

On October 2, 2019, at the Standing Committee on City Finance and Services, Council unanimously voted in favour of a motion calling for the establishment of an Independent Auditor General Office for the City of Vancouver.

On December 17, 2019, Council approved the City's 2020 Budget, including Paragraph P which directed that “\$500,000 be reserved and allocated from the Operating Budget or existent \$750,000 remainder from the 2019 “Innovation Fund”, toward the establishment of an Auditor General's Office in 2020.”

On February 12, 2020, Council passed a motion to establish the Municipal Auditor General Informal Working Group to complete the information-gathering process, work with the CAAF on recommendations, and to then report back with recommendations to Council.

On July 10, 2020, the Informal Working Group and a representative of the CAAF presented their recommendations to Council on establishing an Office of Auditor General for Vancouver and these recommendations were approved unanimously by Council (the “AGO Resolution”).

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The pursuit of an Auditor General for the City of Vancouver is a priority for Council and can be an important opportunity to support staff and Council in our pursuit toward organizational excellence. The City Manager cannot endorse the report given that the City Manager's Office has not been involved, nor consulted, in the development of this approach or these recommendations.

There are a number of considerations that have not been discussed with staff, but could be discussed as the initiative proceeds:

- 1) If there are between 7-10 staff in the Auditor General's office, they will likely be dependent on City Staff for information in the formulation of their audits and Council will likely expect responses and follow-up on the reports. These requirements on staff time have not been taken into account and could amount to a considerable level of effort from senior staff, who are already stretched very thin.
- 2) The salary of the Auditor General is equivalent to the starting salary of the General Manager of Engineering Services who fulfills a complex statutory role and is responsible for over 2000 staff. The City Manager recommends that the General Manager of Human Resources is involved in setting the final salaries of staff in the Auditor General's office to align with City salaries.
- 3) The vast majority of cities in Canada have either an Internal Audit function or an Auditor General function and very few have both. The potential for duplication in work is high, therefore, the work of the Auditor General's functions and that of the Internal Audit function would benefit from close coordination and alignment and it may be worth considering having the Internal Auditor sit in Auditor General meetings and vice versa.
- 4) Finally, the size of the office may be worth considering as it grows in the next year or two. The size of the proposed staff appears to be equivalent to Cities such as Ottawa or Edmonton, while our budget is considerably smaller, it may be that the office could be less than the proposed 7-10 staff.

The City Manager recommends that these issues be explored as the office is established.

## **REPORT**

### ***Background/Context***

This Report implements the resolutions of Council's prior decisions on the establishment of an independent Auditor General's Office (AGO).

A By-law has been drafted by the City Solicitor and is attached as Appendix "A". The By-law has been drafted with the intent of implementing all of the Recommendations of the CAAF as set out in the CAAF Final Report and as endorsed by Council in the AGO Resolution with respect to providing the AGO with a proper legal foundation.

Terms of Reference for an Auditor General Committee have been drafted by the Informal Working Group and are attached as Appendix "B". The Terms of Reference are intended to implement all of the Recommendations of the CAAF as set out in the CAAF Final Report and as endorsed by Council in the AGO Resolution for the establishment of an Auditor General Committee.

Terms of Reference for an Auditor General Recruitment Committee have been drafted by the Informal Working Group and are attached as Appendix "C". The Terms of Reference are intended to implement all of the Recommendations of the CAAF as set out in the CAAF Final Report and as endorsed by Council in the AGO Resolution for the establishment of a recruiting panel for the recruitment of an Auditor General.

### ***Strategic Analysis***

#### ***The By-law:***

The Informal Working Group recommends the approval of the By-law and for it to be brought back for enactment on the basis that it contains the following key elements as endorsed by Council in its AGO Resolution:

- The By-law incorporates recognized principles designed to safeguard the independence of the AGO Vancouver (to the extent available under the *Vancouver Charter*)
- The By-law clearly sets out the mandate of the AGO Vancouver, namely to conduct performance and compliance audits that address:
  - use of all public money by the City,
  - efficiency, economy, and effectiveness of programs and operations, and
  - public financial management.
- The By-law provides full discretion to the AGO Vancouver in discharging its mandate, including unrestricted access to information and freedom from interference by City Council or City management.
- The By-law provides for 7 year non-renewable term for each appointment of the Auditor General.



- The By-law provides for the remuneration for the Auditor General to be set in line with compensation for executive-level City staff but set by Council and free from influence from City management.
- The By-law requires the Auditor General to follow recognized professional auditing standards, but leaves the choice of standards to the Auditor General.
- *Auditor General Committee:*
- The Informal Working Group also recommends approval of the Terms of Reference for the Auditor General Committee. As endorsed by Council in the AGO Resolution, the Auditor General Committee will:
  - be comprised of 7 members, namely 5 Councillors and 2 External Advisory Liaison Members;
  - the External Advisory Liaison Members will have key skill sets to ensure an appropriate level of expertise and guidance on auditing issues to Councillors; and
  - have a clear mandate to deal specifically with the work of the AGO Vancouver and the follow up on such work with City and any other organizations audited by the AGO Vancouver.

*Recruitment Committee:*

The Informal Working Group also recommends approval of the Terms of Reference for the Auditor General Recruitment Committee. As endorsed by Council in the AGO Resolution, the Auditor General Recruitment Committee will:

- be comprised of 7 members, namely 5 Councillors and 2 External Advisory Liaison Members;
- the External Advisory Liaison Members will have performance audit experience to ensure an appropriate level of expertise and guidance on recruiting the new Auditor General;
- be given delegated authority from Council to issue requests for proposal and then award a contract to utilize an external recruitment firm to identify suitable candidates; and
- be charged with reporting back to all of Council with a recommendation (or recommendations) to appoint a candidate to the position of Auditor General.

*Administrative Arrangements, Premises, and Corporate Services:*

The Informal Working Group also recommends approval of the following administrative arrangements which were implicitly also endorsed by Council in the AGO Resolution:

- The General Manager of Real Estate and Facilities Management be directed to report back on the most cost-effective office space options available for the provision of a physical office (with all City standard furnishings and equipment) for the AGO Vancouver, noting the office will be need to be configured to restrict access to all City staff except those within the AGO Vancouver, and the office will need to be able to accommodate a staff of 1-3 FTE's in 2021 and 8-10 FTE's by 2022, and such report (including all costing for budget purposes) will need to be provided to the Auditor General Committee before November 30, 2020.

- The Chief Technology Officer be directed to report back on the recommended technology arrangements for the AGO Vancouver, noting that the AGO Vancouver staff will need to be provided with the City standard set of computers, mobile devices, printers, monitors, and other hardware and software and that such technology will need to be secured to at least the same level as is provided to the City's Legal Services group (which provides legal advice to the City and various City-affiliated entities such as the Vancouver Police Board and so has to have high security and access protection similar to that required by the AGO Vancouver) so as to ensure that all information created or used by the AGO Vancouver is not accessible by any City staff other than those within the AGO Vancouver and such report (including all costing for budget purposes) will need to be provided to the Auditor General Committee before November 30, 2020.
- That all City staff including by way of example only and without limitation, staff within Supply Chain Management, Finance, Legal Services, Real Estate and Facilities Management, and Technology Services be directed to provide the AGO Vancouver with all services normally supplied to the City in the same manner and to the same level as is provided to all other parts of the City as though the AGO Vancouver were simply another City department, provided always that such services must be provided in such a way as to ensure the security and privacy and independence of the AGO Vancouver's work.
- That the AGO Vancouver staff will be subject to all corporate policies of the City and its staff will abide by all of the City's corporate policies including by way of example only, with respect to conflict of interest, code of conduct, use of technology, gifts, substance abuse, respectful workplace, procurement, and budget/financial controls. Only where the Auditor General has identified the requirement for an exception from the policies and that exception has been approved by the Auditor General Committee or Council will such part of such policy not apply to the AGO Vancouver staff.

### ***Implications/Related Issues/Risk***

#### ***Financial***

On December 17, 2019, Council approved the City's 2020 Budget, including Paragraph P which directed that "\$500,000 be reserved and allocated from the Operating Budget or existent \$750,000 remainder from the 2019 "Innovation Fund", toward the establishment of an Auditor General's Office in 2020."

The Informal Working Group has confirmed with the Director of Finance that the 2020 Operating Budget line item for this matter contains sufficient funding for the cost of implementing the Auditor General recruitment in 2020 as outlined in this Report.

The projected cost outlays for the remainder of 2020 are comprised of the cost of retaining an external recruitment firm and possibly securing a lease for office space and purchasing the necessary technology for the Auditor General.

The timing of the AGO Vancouver is such that the salary costs for the Office of Auditor General are not expected to commence until January 1, 2021 at the earliest and as such the future funding for the AGO Vancouver will need to be resolved in the course of Council's budget deliberations on the 2021 Operating Budget. In addition to the one time implementation costs for

which funds have been set aside in 2020, the office of the Auditor General will require funding for 2021.

It is estimated by City staff that the ongoing costs of the office will be up to \$2 million annually based on the requirements outlined in this report, which is equivalent to an additional property tax increase of 0.2%. By approving this report, Council will be committing to the implementation of the Office of the Auditor General as outlined in this report. Upon approval, City staff will set aside funding for this amount in the 2021 budget and 5 year plan, and as part of the 2021 budgeting process staff will provide options to Council for the ongoing funding of the office from additional property tax or service level adjustments in other areas.

### ***Legal***

Approval of Recommendation A in this Report will result in the City Solicitor bringing a by-law substantially in the form attached as Appendix “A” to Council for enactment. Upon Council’s enactment of the By-law, the legal foundation for the AGO Vancouver will be established.

### ***CONCLUSION***

The Informal Working Group for the establishment of an office of independent auditor general for Vancouver recommends Council approves the Recommendations of this Report so that the By-law can be brought back for enactment and the appointments to the Auditor General Committee as well as the Auditor General Recruitment Committee can be made and the recruitment of the Auditor General can commence.

\* \* \* \* \*

# CITY OF VANCOUVER BRITISH COLUMBIA



**BY-LAW NO. \_\_\_\_\_**

**This By-law is printed under and  
by authority of the Council of  
the City of Vancouver**

\_\_\_\_\_, 2020

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BY-LAW NO. \_\_\_\_\_

**A By-law to Establish and Maintain an Independent Office of Auditor General**

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts the following:

**SECTION 1  
GENERAL**

**Name of By-law**

1.1 The name of this By-law, for citation, is the “Auditor General By-law”.

**Definitions**

1.2 In this By-law:

“Auditor General Committee” means the committee of Council created by Council pursuant to Section 161 of the *Vancouver Charter* to provide oversight to the Office of the Auditor General, and in any case where the Auditor General Committee has been disbanded or has less than 4 members of Council, and Council resolves to assume the duties of the Auditor General Committee, the “Auditor General Committee” is deemed to be Council meeting as a committee of the whole;

“Audit Record” means a record created by the Office of the Auditor General and classified as an Audit Record by the Auditor General;

“Board” means any of the Vancouver Police Board, Vancouver Public Library Board, or Vancouver Park Board;

“City-Controlled Corporation” means any entity owned or controlled by the City, including without limitation, Pacific National Exhibition, Vancouver Affordable Housing Agency Ltd., and Vancouver Economic Commission;

“Code of Conduct” means the policy adopted by Council entitled “Code of Conduct”;

“Non-Audit Record” means any record of the Office which is not classified by the Auditor General as an Audit Record;

“Office” or “Office of the Auditor General” means the Auditor General including all staff employed to report directly or indirectly to the Auditor General and, depending on the context, includes the physical premises, records and other appurtenances of the Office; and

“Recruitment Committee” means the committee of Council created by Council pursuant to Section 161 of the *Vancouver Charter* to recruit the Auditor General, and in any case

where the Recruitment Committee has been disbanded or has less than 4 members of Council, and Council resolves to assume the duties of the Recruitment Committee, the "Recruitment Committee" is deemed to be Council meeting as a committee of the whole.

## **Table of Contents**

**1.3** The table of contents for this By-law is for convenient reference only, and is not for use in interpreting or enforcing this By-law.

## **Severability**

**1.4** A decision by a court that any part of this By-law is illegal, void, or unenforceable severs that part from this By-law, and is not to affect the balance of this By-law.

## **SECTION 2** **AUDITOR GENERAL**

### **Independence and accountability**

**2.1** The Auditor General will carry out, in an independent manner, the duties and responsibilities of their office as set out in this By-law.

**2.2** The Auditor General is accountable only to Council and, although an employee of the City, will not report to or be accountable to City staff.

**2.3** All City staff, outside of the Office of the Auditor General, are required to respect and support the independence of the Auditor General and the staff of the Office of the Auditor General.

### **Selection process**

**2.4** The selection process for the Auditor General will be conducted by the Recruitment Committee with the support of an external recruitment firm.

**2.5** Appointment of the Auditor General will be recommended to Council by the Recruitment Committee.

### **Remuneration**

**2.6** Remuneration for the Auditor General will be set by Council based on the remuneration and benefits provided by the City to its General Managers and Deputy City Managers, and the recommendations of the Recruitment Committee.

**2.7** The remuneration for the Auditor General will be reviewed at least every 24 months by the Auditor General Committee.

### **Term**

**2.8** The Auditor General will be appointed for a non-renewable fixed term of office of 7 years.

**2.9** The term of office for the Auditor General may only be modified by a resolution of Council.



### SECTION 3 MANDATE OF THE AUDITOR GENERAL

#### **Powers, duties and limitations of Auditor General**

3.1 The Auditor General is responsible for assisting 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.

3.2 Despite Section 3.1, the responsibilities of the Auditor General do not include the matters described in Sections 230-232 of the *Vancouver Charter* for which the City's external auditor is responsible.

3.3 The authority of the Auditor General to exercise powers and perform duties under this By-law in relation to:

- (a) a Board, is limited to those powers and duties conferred by that Board on the Auditor General voluntarily,
- (b) a grant recipient, applies in respect of any grants received by the grant recipient directly or indirectly from the City, and pursuant to which there is a grant contract or other legal agreement which authorizes the City to audit the grant recipient.

#### **Responsibilities**

3.4 The Auditor General is responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City departments, the offices of the Mayor and members of Council, Boards and City-Controlled Corporations.

3.5 Despite Section 3.4, the Auditor General may undertake financial (excluding attest), compliance and performance audits and provide recommendations to the applicable Board as well as the Auditor General Committee, but only upon the request of that Board.

3.6 All reports by the Auditor General on City-Controlled Corporations or Boards will be submitted first to that entity's board of directors or trustees prior to submitting the report to the Auditor General Committee.

#### **Additional powers, duties and responsibilities**

3.7 The Auditor General will consider undertaking such other duties respecting audit matters as are recommended by Council from time to time but is not required to adopt any such recommendation.

3.8 The Auditor General will immediately report to Council any attempts at interference with the work of the Office of the Auditor General.

### **Annual audit plan**

3.9 The Auditor General will, on or before January 30 of each year (or within 90 days of appointment where the Auditor General is appointed less than 90 days prior to January 30) submit an annual audit plan to Council.

3.10 Only the Auditor general can alter the annual audit plan.

### **Annual reports and recommendations**

3.11 Subject to Sections 3.12 and 3.13, the Auditor General will report annually to Council on the activities and achievements of the Auditor General over the past year.

3.12 Despite Section 3.11, the Auditor General will submit the annual report to the Auditor General Committee for comment prior to submitting the report to Council.

3.13 Despite Section 3.11, the Auditor General will submit any report regarding a City-Controlled Corporation, Board, or grant recipient to the board of directors or trustees of that entity at least 7 days before submitting the report to Council.

3.14 The Office of the Auditor General will report directly to Council (and to the applicable Board or City-Controlled Corporation) on any investigations or inquiries conducted by the Auditor General.

3.15 Where any report by or under the auspices of the Auditor General makes recommendations, such recommendations will include, if feasible:

- (a) suggested City staff member to take responsibility for implementing the recommendations (eg. City Manager or General Manager);
- (b) timelines by which the recommendations should be implemented;
- (c) timelines by which the responsible City manager should report back to Council on progress in implementing the recommendations;
- (d) suggested methodologies for implementing the recommendations; and
- (e) metrics by which the implementation of the recommendations can be measured and tracked.

### **Peer review**

3.16 The Auditor General will undergo an external peer review once every three years to ensure compliance with recognized professional auditing standards.

3.17 The results of the external peer review will be reported to Council through the Auditor General Committee.

### **Mandate review**

3.18 The Auditor General Committee may periodically review the mandate of the Auditor General and then recommend to Council adjustments to the mandate to reflect changing circumstances.

3.19 A periodic review of a mandate will include consultation with the incumbent Auditor General, in order to reflect the Auditor General's experience, advice and input.

## **SECTION 4**

### **IMPLEMENTATION OF AUDITOR GENERAL MANDATE**

#### **Duty to furnish information**

4.1 Subject to Section 4.3, all City staff are required to, and all City-Controlled Corporations and Boards are requested to, give the Auditor General such information regarding their powers, duties, activities, organization, financial transactions and methods of business as the Auditor General believes to be necessary to perform the duties of the Office under this By-law.

#### **Access to records**

4.2 Subject to Section 4.3, 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 City, City-Controlled Corporations, Boards and grant recipients, as the case may be, that the Auditor General believes to be necessary to perform the duties of the Office under this By-law.

4.3 In the case of Boards and grant recipients, where required, the Auditor General must obtain legal consent for, or the legal right to, access the items listed in Section 4.2.

#### **No waiver of privilege**

4.4 Despite Sections 4.1 and 4.2, where a disclosure to the Auditor General under Sections 4.1, 4.2 or 4.3 may constitute a waiver of solicitor-client privilege, litigation privilege or settlement privilege, the applicable staff member and Auditor General must consult with the City Solicitor before the information is provided to the Auditor General. The City Solicitor will then take such steps as are considered necessary or appropriate to make the information available to the Auditor General while protecting the privilege or obtaining Council's consent to the waiver of the privilege.

#### **Power to request an examination on oath**

4.5 Where the Auditor General considers it necessary or advisable to examine any person under oath, the Auditor General may, in consultation with the City Solicitor, submit a request to do so to Council. If Council agrees to the request, and so resolves to do so, a barrister may then be appointed by the Council pursuant to Section 176 of the *Vancouver Charter*, and the barrister will then complete the investigation and report the results of same to Council and if appropriate, the Auditor General and City Solicitor.

#### **Duty of confidentiality**

4.6 Subject always to the Freedom of Information and Protection of Privacy Act, and all other applicable laws, and in order to allow for the free and unencumbered provision of information to the Auditor General without fear of reprisal, the Auditor General and every person acting under the instructions of the Auditor General must treat as confidential all matters that come to their knowledge in the course of carrying out the mandate of the Auditor General under this By-law.

4.7 Subject to Section 4.6, the persons required to maintain confidentiality under Section 4.6 will not communicate information to another person in respect of any matter described in Section 4.6 except as may be required,

- (a) in connection with the administration of this By-law, including reports made by the Auditor General, or with any proceedings under this By-law, or
- (b) under the Freedom of Information and Protection of Privacy Act
- (c) under the Criminal Code (Canada), or
- (d) under any other applicable law.

***Freedom of Information and Protection of Privacy Act***

4.8 While this By-law does not take priority over, or supersede, the *Freedom of Information and Protection of Privacy Act*, the Auditor General and all staff working within the Office of the Auditor General will not disclose any records or information which are subject to confidentiality or privilege under this By-law except where required to do so by law under the *Freedom of Information and Protection of Privacy Act* or other applicable laws.

4.9 All third party requests for access to the records of the Office will be managed by the Information and Privacy Officer of the City, in consultation with the City Solicitor and Auditor General as prescribed by the City's *Freedom of Information and Protection of Privacy By-law*.

**SECTION 5**  
**OFFICE OF THE AUDITOR GENERAL**

**Office**

5.1 The Auditor General is independent of the City administration, subject to the requirements of this By-law.

5.2 The Auditor General has full carriage and control of, and is fully responsible for, the conduct and accountability of the Office of the Auditor General and will manage in compliance with applicable laws as well as such policies of the City that are of general application and do not interfere with the independence of the Office of the Auditor General.

**Office Budget**

5.3 The Auditor General is responsible for submitting an annual budget request to the Auditor General Committee which in turn is responsible for:

- (a) conducting such consultations and clarifications with the Auditor General as is considered appropriate by the Auditor General Committee;
- (b) submitting recommendations on the annual budget for the Auditor General to Council; and
- (c) providing regular updates to the City Manager and Director of Finance on the annual budget request process set out above (but for information purposes only) so as to facilitate the incorporation of such financial information into the general corporate budget development process managed by the Director of Finance.

5.4 The Auditor General is not required to submit their budget request to the City Manager or Director of Finance for review, approval or recommendation.

5.5 Subject to Sections 5.3 and 5.4, the Auditor General's budget request will generally follow the corporate budget submission process as it relates to the level of information provided, and the formats used.

**City corporate policy applies to Office**

5.6 Subject to Section 5.7 below, the Auditor General is responsible for ensuring that the Office of the Auditor General complies with all corporate policies of general application to City staff, including without limitation:

- (a) Advertising (AG-010-01)
- (b) Alcohol, Controlled Drugs, and Medications Policy (ADMIN-011)
- (c) Breastfeeding in the Workplace (ADMIN-030)
- (d) Business Meeting and Discretionary Expenses (ADMIN-013)
- (e) Capital Budget Policy (ADMIN-005)
- (f) Code of Conduct (AE-028-01)
- (g) Community Relations - Intercultural and Race Relations (AG-001-01)
- (h) Diversity on Advisory Bodies Policy (COUN-004)
- (i) Ethical Purchasing Policy (AF-014-01)
- (j) Financial Disclosure Act - Requirements (ADMIN-015)
- (k) Financial Spending Authority (ADMIN-018)
- (l) Human Rights Harassment (AE-002-05)
- (m) Media Relations (AG-009-01)
- (n) Occupational Health and Safety (ADMIN-021)
- (o) Operating Budget Policy (ADMIN-004)
- (p) Privacy Policy (ADMIN-029)
- (q) Procurement Policy (ADMIN-008)
- (r) Respectful Workplace (AE-002-06)
- (s) Social Media (AG-009-02)
- (t) Sponsorship Policy (COUN-029)

- (u) Travel (ADMIN-026)
- (v) Whistleblowing - Reporting, Investigation and Protection (ADMIN-002), and
- (w) any amendments or replacements to the above, as well as any other City by-laws or policies of general application to City employees adopted by Council, from time to time.

5.7 Despite Section 5.6 above, where the Auditor General considers a particular section of a policy does or might interfere with the Auditor General's ability to perform, in an independent manner, the functions assigned to the Office of Auditor General by this By-law, a submission on same must be made to the Auditor General Committee which will in turn submit its recommendations on the issue to Council for decision.

#### **Office staff**

5.8 The Auditor General is responsible for the application of the City's employment-related policies to their staff with necessary modifications to reflect the independent nature of these functions.

5.9 The Auditor General will work with the City Manager, the General Manager of Human Resources, and the City Solicitor in areas where there is a staffing issue involving corporate responsibility or liability.

5.10 The Auditor General has the exclusive authority (on behalf of the City, as the employer) to appoint, promote, demote, suspend and dismiss all Auditor General staff, subject to the provisions of any City employment-related policies applicable to employees of the City.

5.11 Subject to Sections 5.8 and 5.9, the Auditor General has the exclusive authority, with respect to the Office of Auditor General to:

- (a) create the positions and compensation levels for Auditor General staff, within the Council-approved annual budget for the Office, and generally within the City's salary structure, having regard for comparable compensation levels for City staff for purposes of internal equity, and
- (b) modify, delete, or add to those positions and modify compensation levels from time to time and at any time, as the Auditor General sees fit in order to better implement the mandate of the Office.

#### **External audit**

5.12 The operations of the Office of the Auditor General will be included in the scope of the annual attest audit of the City, which is conducted by an external auditor appointed by and reporting to Council.

5.13 The Office will undergo an annual compliance audit by an external auditor appointed by and reporting to Council.

**SECTION 6**  
**DISCLOSURE OF WRONGDOING AND RETALIATION/REPRISAL PROTECTION**

**Whistleblowing and other policies apply, but modified to office**

6.1 The City's employment-related policies, including Whistleblowing – Reporting, Investigation, and Protection, will apply to the Office of the Auditor General.

**Application of whistleblowing and protection process to Office**

6.2 The policy entitled "Whistleblowing – Reporting, Investigation, and Protection" is now deemed to apply to the Office of the Auditor General by making the following changes (but only when the policy is being applied to the Office):

- (a) references to "City Manager" and "General Manager" are deemed to be to the "Auditor General"; and
- (b) references to "Staff" are deemed to include staff of the Auditor General as well the Auditor General.

6.3 Where it is alleged that the Auditor General or their staff has committed serious misconduct as defined in the Whistleblowing policy, improperly breached confidentiality, or engaged in retaliation or reprisal, the City Solicitor may elect to appoint a third party investigator to investigate and report on the matter, but in any event the findings will be reported to City Council by the City Solicitor or third party investigator, as applicable.

**SECTION 7**  
**RECORDS RETENTION**

**Independent management of records**

7.1 The Auditor General has the exclusive authority and responsibility to manage the Audit Records of the Office in an independent manner.

7.2 Nothing in this Section 7 will be construed to limit or interfere with the independence of the Office, including without limitation, the independent management and retention of Audit Records for which the Auditor General is responsible.

7.3 The Auditor General may establish any guidelines and policies necessary to the implementation of this Section 7, including without limitation the categorization and definition of the records which are to be classified as Audit Records (and therefore impliedly classified as Non-Audit Records).

**Record retention schedule for Office**

7.4 The Auditor General has the exclusive authority and responsibility to establish and maintain appropriate Audit Record retention schedules for the Audit Records of the Office in accordance with:

- (a) recognized professional auditing standards

- (b) applicable legal requirements (as advised by the City Solicitor) and
- (c) in consultation with the City Clerk and Chief Technology Officer as to the standards generally applied by the City.

7.5 The Auditor General may seek the provision of services, advice or assistance in the creation and implementation of policies and recommendation of retention schedules as required from the City Clerk, Chief Technology Officer, and City Solicitor.

### **Record retention and disposition**

7.6 No Audit Record of the Office will be destroyed unless the retention period established for the Audit Record in accordance with Section 7.4 above has expired and no information hold is applied on the Audit Record.

### **Non-Audit Records**

7.7 Subject to this Section 7, the Auditor General is responsible for the application of the City's general corporate records retention schedules to the Non-Audit Records of the Office, as appropriate.

7.8 A retention schedule set out in the City's general records retention policies and schedules applies to the Non-Audit Records of the Office.

7.9 Any retention schedule containing an archival review designation for Non-Audit Records of the Office will be deemed to require review by the Auditor General.

### **Reporting to Auditor General Committee on record retention schedules**

7.10 The Auditor General will include in the annual report to the Auditor General Committee the creation and any subsequent modification to the Auditor General's record retention policies, guidelines, and schedules as well as all aspects of its integration with the City's records retention systems for the Non-Audit Records.



**SECTION 8**  
**ENACTMENT**

**Force and effect**

8. This By-law is to come into force and take effect on the date of its enactment.

ENACTED by Council this \_\_\_\_ day of November, 2020

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Acting City Clerk

**Terms of Reference  
Vancouver Auditor General Committee**

**A. PURPOSE**

The Auditor General Committee is responsible to assist Council to provide oversight to the Auditor General on behalf of Council.

**B. MEMBERSHIP**

1. The Committee is established pursuant to Section 161 of the *Vancouver Charter* and will be comprised of 5 members of Council, appointed by Council.
2. The Committee will also be assisted by 2 external advisory liaison members who will be selected by the Committee following the appointment of the 5 Councillors to the Committee.
3. The 2 external advisory liaison members are to have relevant auditing performance experience.
4. Council will appoint the 5 Councillors to the Auditor General Committee taking into account the following factors:
  - a. The Councillor with more expertise, audit-relevant experience, and interest in the Auditor General Committee than the other prospective appointees should be appointed as the Committee Chair; and
  - b. Councillors with accounting, public finance, or recent management experience should be preferred for appointment over those who do not have such experience.
5. The 5 Auditor General Committee members will select the external advisory liaison members applying analogous principles to 4.a and 4.b above

**C. MANDATE/RESPONSIBILITIES**

1. The Auditor General Committee's mandate is to:
  - a. Support the independence of the Auditor General;
  - b. Support the mandate of the Auditor General as set out in the Auditor General By-law; and
  - c. Provide the oversight prescribed by the Auditor General By-law to the Auditor General on behalf of Council.
2. The Auditor General Committee's responsibilities are to:
  - a. Carry out the duties assigned to it pursuant to the Auditor General By-law, including:
    - i. Drafting and approving, in consultation with the City Solicitor, Terms of Reference (External Terms of Reference) for the 2 external advisory liaison members ("**External Advisors**");
    - ii. Issuing a call for volunteers to be External Advisors and selecting and securing written agreement of the External Advisors to the Terms of

- Reference (which will address confidentiality, volunteer status, conflict of interest, regular disclosure requirements, etc.);
    - iii. Receiving draft annual reports from the Auditor General and providing feedback to the Auditor General on same;
    - iv. Reviewing the final reports of the Auditor General and reporting to Council on the work of the Auditor General as well as any recommendations of the Auditor General Committee related to or supplemental to those of the Auditor General's reports, findings, and investigations;
    - v. Calling appropriate members of City's management to Auditor General Committee meetings as deemed necessary or appropriate by the Auditor General Committee to understand the City's management's perspective on reports, and to monitor how effectively and quickly recommendations are implemented and so as to assist Council to ensure all recommendations are implemented;
    - vi. Reviewing the annual budget request of the Auditor General and consulting with the Auditor General on same and making recommendations to Council within the timelines being followed by Council generally for the development of each annual operating budget;
    - vii. Periodically reviewing and reporting to Council on the remuneration of the Auditor General;
    - viii. Periodically reviewing the mandate of the Auditor General and making recommendations on same to Council;
    - ix. Periodically reviewing these Terms of Reference as well as the External Terms of Reference and any related guidelines, forms, or associated documentation; and
    - x. Replacing the External Advisors as and when necessary due to vacancy or otherwise;
  - b. Convene meetings within 30 days of receiving any report or other communication from the Auditor General requiring review or decision by the Auditor General Committee;
  - c. Meet at least 3 times per year; and
  - d. Meet within 20 days of any request by the Auditor General for a meeting.
3. The Auditor General Committee's administrative responsibilities are to ensure that it has the appropriate budget, resources, and administrative support to complete its work, including the following:
- a. Including its budget requirements in the annual budget request of the Auditor General (for example the procurement of an expert, if needed);
  - b. Developing on or before February 28 of each year an annual plan that outlines the elements to be covered in each planned meeting to align with its responsibilities as set out above;
  - c. Developing each meeting agenda to reflect the annual plan and other pertinent topics that are anticipated to arise during the year; and
  - d. Identifying and ensuring it recommends to Council for approval if necessary sufficient City Clerk resources and support staff to undertake its duties, such as organizing the meetings, making necessary documents available, setting up the communication and presentation technology, taking minutes, and supporting follow-up.

4. Auditor General Committee members also have an individual responsibility to become and stay informed about key accounting principles related to risk, and the application of audit standards by auditors. Members may carry out this responsibility by:
  - a. Requesting that the external advisory liaison members or Auditor General regularly explain the standards used by and for the audits carried out by the Auditor General as well as the implications of the standards in terms of how the Auditor General has or will reach a conclusion on any given matter; and
  - b. Requesting or verifying that the interpretation of these standards is disclosed in all audit plans presented by the Auditor General.

#### **D. AUDITOR GENERAL COMMITTEE PRIVILEGES**

1. Committee members are permitted to meet privately with the Auditor General on request.
2. Committee members are entitled to have adequate and relevant orientation provided to them by the Auditor General, the Chair, or the External Advisors as appropriate so as to assist Committee members to:
  - a. Better understand the committee's purpose, procedures, and the roles of the chair and of members;
  - b. Better understand the similarities and differences between the different types of audit (financial audit, performance audit, internal audit, and special studies);
  - c. Better understand the general audit process, and the role of the Auditor General Committee in regard to each type of audit;
  - d. Better understand the accountability relationships among the external auditors, the Auditor General, Internal Audit, and the Director of Finance; and
  - e. Better understand the importance of the accountability relationships and how to best support the follow up on, and the implementation of, the Auditor General's recommendations.
3. Where the Committee has been given budget funds for same by Council, the Committee members will be given access to professional development to assist them in understanding current issues that impact their role.

#### **E. COMMITTEE OBJECTIVES/GOALS**

1. The Committee and its Chair will foster a cooperative relationship between members around a commitment to improving public accountability:
  - a. Cooperation and respect among members are encouraged;
  - b. Questions, concerns, and differences of opinion are openly addressed in a respectful manner; and
  - c. A focus on fulfilling the Committee's mandate and improving public accountability is used to unite members even when they face differences of opinion and of priorities.
2. The Committee will engage constructively with City management:
  - a. Interdependence between the Committee, external auditors, internal auditors, and management is fostered, while independence of the roles is respected.
  - b. The Committee treats invited guests respectfully.
  - c. Members ask constructive questions to understand management's perspective.
  - d. Questions are related to the topic being addressed.

- e. The appropriate member of staff is called to answer any Committee questions and provide, when necessary, related documentation.
  - f. The scope of the meeting is communicated to managers for the area under discussion, in advance of a meeting, so they can prepare appropriately.
  - g. Members ensure their questions are answered and request written follow-up if questions cannot be answered at the meeting.
  - h. Meeting minutes are to be sufficient to serve as a good record of the answers provided by management and of the necessary follow-up.
3. The Committee will allow sufficient time on the agenda to properly review and discuss the reports and other information being provided by the Auditor General to them.
- a. The Committee dedicates sufficient time at each meeting to:
    - i. examine and discuss the Auditor General's reports issued on performance audits or special studies, investigations, or inquiries, and
    - ii. carry out the responsibilities assigned to it pursuant to the Auditor General By-law.
  - b. The Committee will dedicate time to speak privately with the Auditor General to get clarity on:
    - i. the reports,
    - ii. the relationship with management,
    - iii. any difference of view with management, and
    - iv. any particular risk of fraud or other issues.
4. The Committee will report regularly to Council on its work, including
- a. on management's progress on implementing audit recommendations until the implementation is concluded.
  - b. an annual report to the Council that summarizes how it has achieved its mandate and responsibilities and its activities, including
    - i. comments on issues and matters of concern,
    - ii. recommendations of the Auditor General as supplemented where appropriate by the Committee
    - iii. any other information which will assist Council to consider and approve where necessary the recommendations, and to acknowledge the Committee's and Auditor General's work.
5. The Committee will periodically evaluate its own work and reflect on it (through an anonymous survey, peer review, and/or self-assessment).
6. The Committee will ensure audit recommendations are implemented:
- a. The Committee will discuss the recommendations raised by audit reports;
  - b. The Committee will obtain assurance that the management accountability process is effective in monitoring implementation of the management action plans responding to the audit recommendations;
  - c. The Committee will communicate with management to obtain direct information about the action plans and to make any necessary improvements to the accountability process, and will invite management to attend Auditor General Committee meetings in this regard; and
  - d. The Committee will follow up with management and the Auditor General to ensure, with evidence, that recommendations have been implemented.

7. The Committee will seek out action plans and status updates from departments that outline how they will implement recommendations, including:
  - a. Ensuring management provides detailed action plans in response to the audit recommendations;
  - b. Ensuring the plans provide detail on how management will address the Auditor General's (and Committee's if any) recommendations and who has responsibility for implementation;
  - c. Ensuring the action plans and status updates include realistic timelines and completion dates;
  - d. Ensuring the action plans are reviewed, and the implementation of the recommendations is tracked and recorded by management and by the support staff of the Committee; and
  - e. Through collaboration with the Auditor General and management, ensure that the Committee obtains and reviews detailed status updates from departments.
8. The Committee will ensure the continuity of work and transfer of knowledge, including:
  - a. Ensuring that Council receives recommendations to appoint an Auditor General Committee in a timely manner following an election;
  - b. Ensuring the Committee has a method to ensure that work continues when Committee membership changes, including endeavouring to appoint the External Advisors so that their terms are staggered as between the two of them but that their two terms overlap any upcoming election;
  - c. Ensuring that there are clear and simple to read or watch orientation and training materials and resources that allow any new Committee member to be quickly briefed upon appointment and well in advance of any in person or regular training or updates from the Auditor General or Committee members; and
  - d. Ensuring the minutes and records of the Committee are readily available to new and existing members at all times for their review.

#### **F. ACCOUNTABILITY OF COMMITTEE**

The committee reports to Council.

#### **G. PROCEDURE/QUORUM/VOTING**

1. Meetings are meetings of a committee of Council and will be scheduled, conducted, and recorded in the same manner as any other meeting of Council in committee pursuant to the Procedure By-law.
2. For the purposes of the Procedure By-law, the Auditor General Committee is a standing committee.
3. Quorum will be 4 out of the 5 Councillors.
4. Decisions will generally be made by consensus, but in the absence of same, any Councillor may request a vote and the matter will be decided by a simple majority of the Councillors present.
5. The External Advisors are non-voting members.

**H. MEETING FREQUENCY/VENUE**

Meetings will occur in the manner set out under “Mandate/Responsibilities”

**I. TERMS OF REFERENCE MAY BE REVIEWED**

The Terms of Reference may be reviewed by the Committee on request, but delegated authorities may only be changed by resolution of Council.

**J. TERMS OF REFERENCE TAKE EFFECT ON APPROVAL**

These Terms of Reference take effect on the approval of them by Council.

Approved by Council: \_\_\_\_\_, 2020

**Terms of Reference**  
**Auditor General Recruitment Committee**

**A. PURPOSE**

The Auditor General Recruitment Committee is responsible to assist Council to recruit the new Auditor General for the City of Vancouver.

**B. MEMBERSHIP**

1. The Committee is established pursuant to Section 161 of the *Vancouver Charter* and will be comprised of 5 members of Council, appointed by Council.
2. The Committee will also be assisted by 2 external advisory liaison members who will be selected by the Committee following the appointment of the 5 Councillors to the Committee.
3. The 2 external advisory liaison members are to have relevant auditing performance experience.

**C. OBJECTIVES**

1. With the assistance of the City Solicitor, prepare External Terms of Reference for the 2 external advisory liaison members.
2. Solicit and retain 2 volunteers to serve as the external advisory liaison members to the Committee on the terms of the External Terms of Reference as well as these Terms of Reference.
3. With the assistance of the Chief Procurement Officer, and in consultation with the 2 external advisory liaison members, competitively procure the services of an external recruitment services firm and award a contract for same to the successful proponent.
4. Develop a recruitment plan in consultation with external recruitment firm.
5. Assist with interviewing and screening all potential candidates as and when needed by the external recruitment firm.
6. Provide the recruitment firm with all required decisions and input.
7. Evaluate the results and reports of the external recruitment firm and assist the recruitment firm with the preparation of an in camera report to Council on the recommendations for the selection of the new Auditor General.

**D. ACCOUNTABILITY OF COMMITTEE**

The committee reports to Council.



**E. PROCEDURE/QUORUM/VOTING**

1. Meetings are meetings of a committee of Council and will be scheduled, conducted, and recorded in the same manner as any other meeting of Council in committee pursuant to the Procedure By-law.
2. For the purposes of the Procedure By-law, the Auditor General Recruitment Committee is a standing committee.
3. Quorum will be 4 out of the 5 Councillors.
4. Decisions will generally be made by consensus, but in the absence of same, any Councillor may request a vote and the matter will be decided by a simple majority of the Councillors present.
5. The external advisory liaison members are non-voting members.

**F. MEETING FREQUENCY/VENUE**

1. Meetings will occur as and when needed to achieve the objectives prior to the end of 2020.
2. Meetings will take place in person or by teleconference as needed. Committee members may communicate by e-mail and phone between meetings.

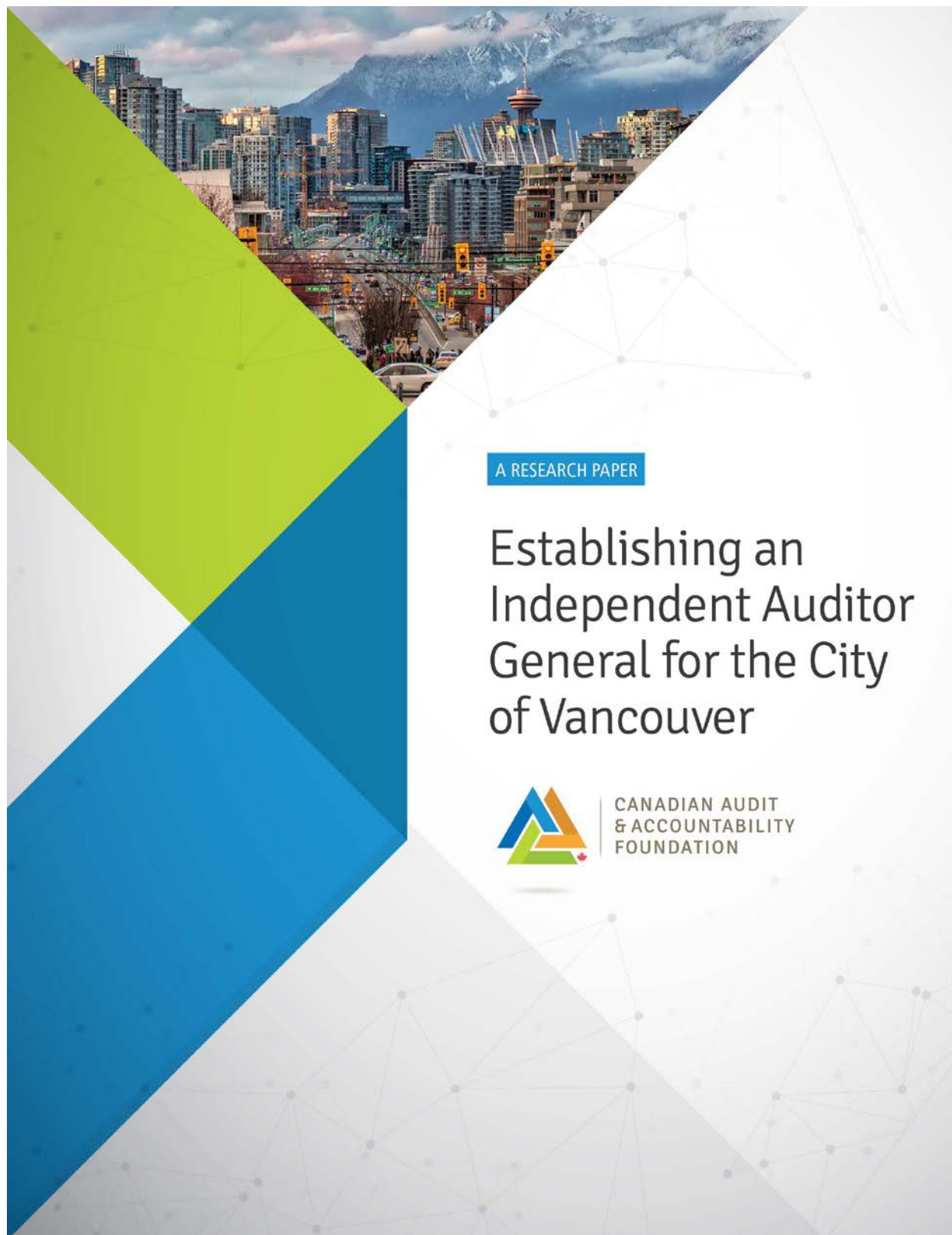
**G. TERMS OF REFERENCE MAY BE REVIEWED**

The Terms of Reference may be reviewed by the Committee on request, but delegated authorities may only be changed by resolution of Council.

**H. TERMS OF REFERENCE TAKE EFFECT ON APPROVAL**

These Terms of Reference take effect on the approval of them by Council.

Approved by Council: \_\_\_\_\_, 2020



A RESEARCH PAPER

# Establishing an Independent Auditor General for the City of Vancouver



CANADIAN AUDIT  
& ACCOUNTABILITY  
FOUNDATION

## About the Canadian Audit and Accountability Foundation

The Canadian Audit and Accountability Foundation is a premier Canadian research and education foundation. Our mission is to strengthen public sector performance audit, oversight and accountability in Canada and abroad. We build capacity in legislative audit offices, oversight bodies, and departments and crown corporations by developing and delivering:

- Training workshops and learning opportunities;
- Methodology, guidance and toolkits;
- Applied and advanced research;
- Information sharing events and community building initiatives.

This research paper was prepared for the City of Vancouver. The statements in this paper reflect the findings and conclusions of the Canadian Audit and Accountability Foundation and are intended to inform discussions of Vancouver City Council as part of its work to develop an auditor general's office for the City of Vancouver.

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### Establishing an Independent Auditor General Office for the City of Vancouver

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## Highlights

On October 2, 2019, Vancouver's City Council decided to establish an independent Auditor General for the City of Vancouver to be based on "best practices, insights and experience observed in other major Canadian cities that have municipal Auditors General." This is an important step in maturing and modernizing accountability for the citizens of Vancouver. The creation of municipal auditor general functions in Canada is relatively recent and we believe Vancouver City Council has the opportunity to learn from these experiences and to be on the leading edge of effective accountability in Canada.

Auditors general exist in Halifax, Ottawa, Montreal (and all cities in Quebec with a population greater than 100,000), Toronto, all provincial legislative assemblies, the Parliament of Canada, and throughout Commonwealth countries. Auditors general play a unique role in fostering public sector accountability. They share a common purpose: To provide citizens with independent assurance and objective information about whether governments are appropriately stewarding public money, spending resources as intended, and delivering public services effectively. This information allows elected representatives (city councillors, members of legislative assemblies, and members of Parliament), on behalf of citizens and constituents, to hold the public service accountable for its performance and to improve public services. Virtually all auditors general in Canada are mandated to carry out performance audits of organizations, programs, and services.

There are other audit models and types used in Canadian municipalities. These include internal auditors, who serve management and examine risk management, governance, and internal controls, and financial statement auditors (often private sector accounting firms), who examine the reliability of the municipality's financial statements. These audit models and types can work effectively together for the strongest governance because they each serve different, not overlapping, purposes.

While the primary and inherent value of an auditor general is to provide independent assurance of the stewardship of public funds, many auditor general institutions see themselves as agents of change and seek to have additional value, or impact. Nearly all auditor general offices show the impact of their work in some way. This assures taxpayers of the direct value they receive in return for money invested in an audit office. Offices use several methods to demonstrate value. Some are focused on financial savings; others are focused on efficiency, improved public services, better controls, or more effective governance.

"Auditors general play a unique role in fostering public sector accountability. They share a common purpose: To provide citizens with independent assurance and objective information about whether governments are appropriately stewarding public money, resources are being spent as intended, and public services are being effectively delivered."



“The most fundamental characteristic and principle of the auditor general model is independence”

Vancouver City Council’s choice of an auditor general model has important implications for the design, mandate, and placement of the new institution as well as for the profile and recruitment of the individual who will occupy the post. This is because the auditor general model for

public sector audit is well-defined and time-honoured, based on globally recognized principles and practices that need to be incorporated into the design and ongoing operation of Vancouver’s Auditor General Office. These principles are fully described in the report. The most fundamental characteristic and principle of the auditor general model is independence. In calling for the creation of an “independent” Auditor General for the City of Vancouver, Council has accented the importance it places on independence.

Council’s choice of an auditor general model also has implications for Council’s oversight role in relation to the work of the Auditor General. This is because the effectiveness of the auditor general model relies on councillors receiving and reviewing audit reports, convening public meetings in relation to the work of the Auditor General, and holding City management accountable for taking action to implement recommendations made by the Auditor General in audit reports.

City Council has engaged the Canadian Audit and Accountability Foundation (CAAF) to assist it in creating the new Auditor General Office for the City of Vancouver (AGO Vancouver). This report sets out our conclusions and includes

- relevant contextual information about municipal auditing and oversight in Canada
- principles and good practices that influence the design and operation of AGO Vancouver and the oversight role of Vancouver City Council
- the main “building blocks” involved in creating a new audit institution and the pathway of actions and decisions that City Council needs to consider
- recommendations where appropriate

This report was written by an internal team at the Foundation, drawing on our in-house expertise and research specifically carried out for this project. In addition, we worked with a group of external advisors comprising six current and former municipal auditors general. Our advisors provided insight into how practices work in their offices and reviewed the paper to provide feedback. In addition, we interviewed the head of the Internal Audit Division, the Chief Risk Officer, and the City Manager in the City of Vancouver. We gathered comparative information from four cities that have an auditor general—Halifax Regional Municipality, Ottawa, Montreal, and Toronto—and have included this information throughout the report, where relevant.

## Pathway toward the Office of the Auditor General Vancouver

There is no blueprint or recipe book on how to establish a new auditor general institution. But there are recognized principles, good practices, and decades of experience to build on. In this report we describe those that are most relevant for establishing the new AGO Vancouver.


The figure below depicts the “building blocks”—the actions and decisions required—for creating and sustaining AGO Vancouver. We have organized these into four main categories: building the foundation, putting the pieces in place, getting up and running, and improving public administration. These actions and decisions appear in rough order of sequence—a pathway—recognizing that some of these activities are iterative and can occur in parallel. It should be recognized that the AG office will need time to get up and running prior to producing reports.

### Building Blocks on the Pathway to Creating AGO Vancouver



To build the foundation, City Council needs to first establish the Office’s legal basis and mandate. The choice of legal instrument to be used is a decision for City Council. If the new Office is created by a bylaw pursuant to powers under the Vancouver Charter, the bylaw needs to contain a number of provisions that are described fully in the report, including those related to independence. These provisions include:

- appointment, removal, and tenure of the Auditor General
- mandate and scope
- unrestricted access to information
- protection of audit files and working papers
- freedom to choose the content and timing of public reports
- financial and administrative autonomy



A second order of business in building the foundation is determining the budget. Recognized principles require that AGO Vancouver have the appropriate human, material, and monetary resources to carry out its mandate. We recommend that the budget not be set arbitrarily but be based on the considerations set out in this report. Council may decide to grow the new institution to full capacity over a period of months or years. In such a case, the start-up budget may be different than the final budget.

The primary driver in determining the overall budget will be the staff salary and benefits. We believe that AGO Vancouver will require 8 to 10 full-time equivalents (FTEs) of professional audit staff, including the Auditor General, as well as appropriate administrative support. The salary and benefits of the Auditor General should be commensurate with the salary structure for City senior managers. Other important considerations include the extent to which the Office's budget must cover costs such as maintaining separate office premises, legal advice, information technology (IT) infrastructure, and corporate services such as human resources, communications, and finance. For an Office the anticipated size of AGO Vancouver, it may make sense to rely on the City for shared services and premises, as long as threats to independence are managed. Other budget elements include such things as staff training, contracting subject matter experts, publishing, office supplies, licensing fees and professional dues.

Once the bylaw has passed and the budget has been determined, attention should shift to putting the pieces in place. First and foremost, recruitment of the Auditor General can begin. The Auditor General's appointment should be addressed in the bylaw that creates the position and Office, and independence should be applied in the recruitment process. We recommend that a hiring panel be created to lead the recruitment process. This panel should include members of City Council as well as external advisors, such as former auditors general at the municipal, provincial, or federal level. City management should not participate in the hiring panel.

AGO Vancouver, like any independent audit office, requires financial, managerial, and administrative authority as well as the appropriate human, material, and financial resources to discharge its responsibilities. These provisions would not normally be in the legal basis for the Office. Rather, these would be addressed in administrative arrangements between the Office and the City. The principle of independence also carries through to the administrative arrangements to support the new institution and the degree of financial, managerial, and administrative autonomy provided to the Office. As noted above, these administrative arrangements could include common services provided by the City, such as human resources management, payroll, IT, and accommodations.

Getting the new Office up and running requires many steps, to be led by the Auditor General. These include staffing the balance of positions in the Office, deciding which professional standards the Office will adhere to, developing various policies and the audit methodology, and managing relationships with Council, City management and citizens.



## Pathway toward the Audit Committee of Council

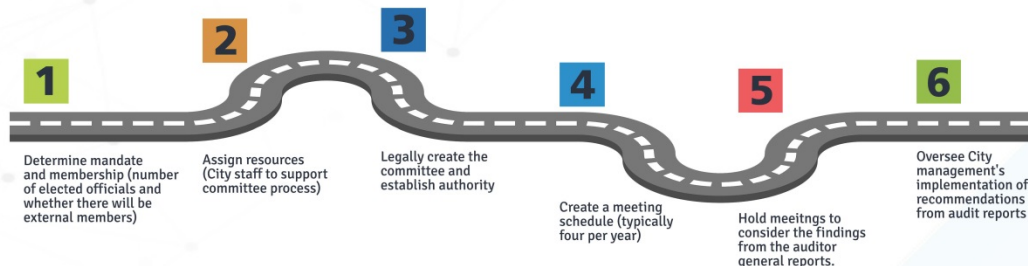
Vancouver City Council's decision to create an independent Auditor General has important implications for the role and mandate of City Council itself. City council becomes the "oversight body" for the Auditor General's work. Oversight by elected bodies is an important part of the auditor general model and of demonstrating accountability. In many municipalities, this oversight is exercised by a committee of council, commonly known as an audit committee. On behalf of council, audit committees are responsible for receiving the reports of the auditor general and for holding City management accountable for correcting deficiencies and implementing the Auditor General's recommendations. To uphold independence, city councils (or audit committees) do not exercise oversight of an auditor general's office nor of the auditor general individually.

"Oversight by elected bodies is an important part of the auditor general model and of demonstrating accountability."

The CAAF has extensively researched good practices to guide the creation and ongoing functioning of municipal audit committees, based on consultation with auditors, audit committee members, and professional organizations. These good practices and associated indicators are described in the report and are consolidated in Appendix C.

The recommended pathway and steps to establish the oversight body are summarized in the figure below.

### Pathway to Creating an Audit Committee



City Council must first decide whether it wants to create a new audit committee. A separate audit committee allows for dedicated time to consider the Auditor General's work; committee members can consider the issues in greater depth and bring to the Council as a whole any relevant topics. Exercising oversight effectively requires time and administrative support, and council will need to ensure that it, or an audit committee, has the appropriate resources and support and dedicates enough time to complete the work. If Council chooses not to create a separate audit committee, Council as a whole must act as the audit committee, and should convene itself as an audit committee to address its oversight responsibilities.

A key order of business is for City Council to develop a clear statement of responsibilities in relation to the Auditor General's work and to embed these in a written mandate, charter, and/or terms of reference for itself or an audit committee. Samples of audit committee mandates of other municipal audit committees are in Appendix B.

In many jurisdictions, much of the work of audit committees is conducted in public meetings because they are important for transparency and accountability. They are the committee's chance to do the following:

- engage publicly, in a constructive way
- focus on and understand the audit findings
- ensure there is a shared understanding of how any identified issues will be resolved
- get clarity on when and how recommendations will be implemented

City Council, or its audit committee, should develop a system of follow-up to ensure audit recommendations are implemented. This can include requesting action plans from management by a set time after an audit is released. Action plans have the following benefits:

- help the citizens and councillors understand how, and by when, management plans to address the audit recommendations
- support the follow-up process by providing a blueprint for what management plans to do
- help to ensure that councillors and management have a shared understanding of the audit recommendations and what steps will be taken to address them

City management should be required to report regularly to the committee on its progress on implementing the action plans.


### **Vancouver's Internal Audit Division**

Although this report is focused on how to create the new AGO Vancouver, we were asked by Council's "Informal Working Group" to consider the implications that creating this new institution may have on the City's existing Internal Audit Division (IAD). Driven in part by concerns over potential duplication of effort, and the cost of maintaining both organizations, questions have arisen as to whether IAD should be merged with AGO Vancouver, retained as is, or eliminated altogether.

The Internal Audit Division is part of the City management's "three lines of defence" based on the Institute of Internal Audit's Three Lines of Defence in Effective Risk Management and Control framework. This model is widely used by private and public sector organizations around the world as part of an overall approach to strengthen risk management and internal controls. Internal audit is the third line of defence and provides assurance on the effectiveness of governance, risk management, and internal controls. In effect, internal audit gives management insight into how an organization is running.

"CAAF believes that both internal auditors and auditors general contribute to improved public administration, accountability, and good governance."

Establishing an Independent Auditor General Office for the City of Vancouver – Final Report



In our view, the option of combining the two roles and functions into a single organization is unsound and should not be pursued: Internal auditors and auditors general differ too greatly in their core purpose and client. Auditors general serve citizens by providing independent assurance over stewardship of public funds. Internal auditors serve management by providing audit and advisory services to help their organization achieve its objectives.

In principle, the CAAF believes that both internal auditors and auditors general contribute to improved public administration, accountability, and good governance. Therefore, we believe the question of whether to retain or eliminate the IAD is more a question of cost and perceived affordability than it is of value and importance. Said another way, from the standpoint of effective public administration, there are compelling arguments in favour of retaining the IAD as a management tool for the City administration. If Council decides to create the new Auditor General institution and to retain the IAD, both organizations need to be properly and fully resourced to be effective.

## Introduction

Public sector auditing is practised throughout the world, in local, provincial/state, and national jurisdictions. It is an indispensable component of good governance and public sector accountability. Many large Canadian municipalities have an audit function; a few have an independent auditor general function.

On October 2, 2019, the City of Vancouver Council passed a motion to establish a new audit function, an independent Auditor General Office for the City of Vancouver (AGO Vancouver). The new Office is to be based on “best practices, insights and experience observed in other major Canadian cities that have municipal Auditors General.” This is an important decision in the maturity and modernization of public sector accountability in Vancouver, and City Council is now moving to implement its decision with the support of the City administration.

Council’s decision to adopt an auditor general model over other auditing models has important implications for the new institution’s design, mandate, and placement as well as the profile and

“The auditor general model for public sector audit is well-defined and time-honoured, based on globally recognized principles and practices.”

recruitment of the individual who will occupy the post. This is because the auditor general model for public sector audit is well-defined and time-honoured, based on globally recognized principles and practices that need to be incorporated into AGO Vancouver’s design and ongoing operation.

Council’s decision to establish an Auditor General also has implications for its future oversight role in relation to the work of the Auditor General. This is because the effectiveness of the auditor general model relies on councillors to do the following:

- receive and review audit reports
- hold public meetings in relation to the work of the auditor general
- hold city management accountable for taking action to implement recommendations made by the auditor general in audit reports

In this report, we refer to the new organization as an audit “institution” or “office” to be consistent with the terminology used around the world as well as to distinguish the institution from the individual. We refer to the new institution as the “Auditor General Office for the City of Vancouver,” or “AGO Vancouver.”

There is no blueprint or recipe book on how to establish a new auditor general institution. The most recently created municipal audit general institution in Canada was the Office of the Auditor General of the Halifax Regional Municipality (2009). In designing a new institution, the City of Vancouver can draw on the experience of this and other municipal auditors general in Canada as well as on recognized principles and good practices, but ultimately the design needs to fit the City’s unique circumstances.



City Council has engaged the Canadian Audit and Accountability Foundation (CAAF) to assist it in creating this new institution. Using in-house expertise, and our research and consultation with advisors, our objective is to provide Council with a research report that does the following:

- Provides relevant contextual information about municipal auditing and oversight in Canada.
- Identifies recognized principles that influence the design and operation of auditor general offices in Canada and around the world and describes the implications of these for AGO Vancouver.
- Identifies recognized principles and good practices affecting the role and effectiveness of municipal oversight bodies in Canada (typically the audit committee of a city council) and describes the implications of these for Vancouver City Council.
- Describes the main “building blocks” involved in creating a new institution, including:
  - the legal basis, including terms of reference (mandate, scope, and functions), protections for independence, access to information, and reporting
  - the budget and staffing model
  - administrative arrangements
  - recruitment of the Auditor General and staff
  - premises and corporate services
  - professional audit practices
  - roles and responsibilities of an audit committee
- Outlines a pathway of required actions and decisions to be taken by Council and City administration, options for Council to consider, and specific recommendations where appropriate.

## Background and Context

### Auditing and Oversight in Canadian Municipalities

There are several audit models or functions in municipalities across Canada. While they share some similarities, they also have significant differences, including the degree of independence, the nature of their mandate, the types of audits conducted and subjects audited, and most importantly, their core purpose and client. These are explained in the sections that follow.

The creation of municipal auditors general in Canada is a relatively recent development. For example, Toronto's was established in 2002, Ottawa's in 2004, and Halifax Regional Municipality's in 2009. The role of Montreal's existing auditor general was significantly amended in 2002 to increase its independence. Following the adoption of an act in 2018, all municipalities in Quebec with a population greater than 100,000 are now required by provincial law to have an auditor general.

While these auditor general functions respond to the unique circumstances of municipal governments, they all have roots in auditor general functions found in the provinces and federal government. Auditors general have been part of Canadian public administration and accountability for more than 140 years, dating back to 1878, when Canada's first independent Auditor General was appointed. In this report, we refer to the provincial, federal, and international experiences to help the reader understand good practices for the auditor general model as they have guided the development of municipal auditor general functions in recent years.

### Typical Audit Models

This section will explain the most common models and the key differences among them. Their roles and mandates, as well as the degree of independence they have from management, vary across models. Among other things, the degree of independence drives the reporting relationship, budget, and who sets (or can influence) the "annual audit plan" (that is, the subjects and number of audits to be carried out in a given year).

CAAF believes that the most effective governance arrangements will, depending on capacity, integrate and rely on the work of the private sector accounting firm, internal audit, and the auditor general.

### Auditor general model

The roots of municipal auditor general functions in Canada lie in Canada's Parliament and in provincial legislative assemblies, where the federal and provincial auditors general, parliamentary oversight committees, and government departments operate together to form a "system of accountability." Ultimately, it is elected officials who are accountable for the use of public resources and delivery of public goods and services. The parliament or legislature provides authority and public resources to government departments and agencies which in turn steward those resources, deliver goods and services, and report on their use and performance.

In this system of accountability, auditors general play a unique and special role in fostering transparency and accountability. Being fully independent from both government and the legislature or Parliament, they share a common purpose: To provide citizens and their elected representatives with independent assurance about whether governments are appropriately stewarding public money, spending resources as intended, and effectively delivering public services.

The federal and provincial auditors general conduct different types of audits of public sector departments and agencies, including performance audits and attestation audits of the government's financial statements (often known as the "Public Accounts"). They report audit results publicly and to the legislature or Parliament. Auditors make recommendations for improvement after focusing on public administration—examining the activities of public servants and managers, not ministers and other elected officials.

Information contained in audit reports allows elected representatives, on behalf of citizens and constituents, to oversee and hold the public service accountable for its performance and to improve public services. On behalf of Parliament or the legislature, it is usually the Public Accounts Committee (or equivalent) that holds departments accountable for correcting deficiencies and implementing the auditor general's recommendations.

Elected officials, not auditors, are responsible for ensuring that management implements recommendations from audit reports.

In municipalities, the governance dynamic is completely different than in provincial legislative assemblies or Parliament. There are no "legislative" and "executive" branches, or ministers, and often no political parties. Furthermore, elected councillors have a closer and more direct relationship with city management, and both councillors and management are very accessible to the taxpayer.

And yet, the fundamental principles of public sector accountability still hold. Elected city councillors are accountable to constituents for their use of public resources, and they approve spending by city departments and agencies, who in turn deliver public goods and services. After spending the money entrusted to them, departments and agencies are obliged to report back on how the money was used and what results were achieved. This obligation to answer for actions taken forms the basis of an accountability relationship between public administrators and elected councils.

Like their federal and provincial counterparts, municipal auditors general are independent from management and council and play a special and unique role: They provide citizens with independent assurance of the administration's performance and use of public funds. Audit findings are reported publicly and to the council or the audit committee of council. This allows council members, on behalf of constituents, to hold departments and managers accountable. Audit reports provide insight into how publicly funded organizations operate and how programs are being administered. Citizens and elected officials can rely on the information in audit reports as reliable and fact-based.

The legal basis and mandate of municipal auditors general are laid out in provincial laws and/or municipal bylaws. These vary across jurisdictions. There are many safeguards to protect independence, such as a fixed-term appointment, freedom and authority over audit planning and reporting, and budget protection. In some jurisdictions, council reviews (but does not approve) the audit plan and the auditor may conduct audits based on council's request (if the plan permits), but they are not required to.

In the municipal auditor general model, oversight by the city council is crucial. Each city council in our study has established a committee of council, to exercise oversight on its behalf. It is usually the committee's responsibility to oversee whether and how management is taking actions to address the auditor's recommendations. Audit committee members, as busy elected officials, can get the most out of audit reports when they have institutional staff who help them throughout the inquiry process.

Auditors general are independent. They report to council, but councillors cannot direct their work.

Audit committee members are expected to read and develop an understanding of what is in the audit report, and they may explore any shortcomings identified in the report. For example, they may ask for additional information and clarification from the auditor, and they may meet with management to discuss how it plans to address the audit recommendations. The audit committee often reports back to the entire council with its own recommendations.

Municipal auditors general do not offer consulting or advisory services because this can be a threat to their independence from management. They do often house fraud and waste hotlines that support greater transparency in their community. As explained further below, their audits can focus on performance or value-for-money (economy, efficiency, and effectiveness), compliance and/or financial statements depending on their mandate.

### Fraud and waste hotlines

Many municipal audit offices have responsibility for maintaining a fraud and waste hotline or whistleblower program. These programs allow city employees or members of the public to submit anonymous information, tips, or complaints on suspected or witnessed instances of fraud or waste.

These programs need to ensure that the identity of those submitting information to the hotline will remain confidential, and that the matter will be looked into by an independent and unbiased investigator.

As an independent office within the municipality, the Auditor General is in the best position to serve this role. Information obtained through the hotline will also inform their own risk assessment and audit planning.



### Internal audit model

In Canada and around the world, public sector internal auditing contributes to effective public administration and good governance. The practice of internal audit is governed by the professional association The Institute of Internal Auditors, or IIA. According to the IIA, “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations ... bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”<sup>1</sup>

Internal audit is part of the IIA’s Three Lines of Defence in Effective Risk Management and Control framework. The three lines of defence model is widely used by private and public sector organizations around the world, including the City of Vancouver, as part of an overall framework aimed at strengthening risk management and internal controls. The model is based on best practices that can help organizations systematically delegate and coordinate essential risk management duties. The three lines of defence are:

1. operational management
2. risk management and compliance functions
3. internal audit function

Operational management is the first line of defence and is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. As a second line of defence, the organization establishes various risk management and compliance functions to ensure the first line of defence is properly designed, in place, and operating as intended.

The third line of defence, internal audit, provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. In effect, internal audit gives management insight into how an organization is running. While internal auditors generally look at control environments, their audits may address matters typically associated with performance and compliance audits. Internal auditors also often provide consulting services, where they give advice on how an organization can improve certain functions (such as governance, risk management, and control).

While internal auditors provide a high level of independence and objectivity within an administration, they are internal to management. Internal auditors typically report to management, or a committee of members of the management team. This reporting relationship means that management can direct the work of an internal auditor, including the annual work plan, which is approved by the audit committee, council, or management, depending on the jurisdiction. Once approved, the auditor will have independence to conduct the work. In some jurisdictions, internal audit reports are provided to the City Council and the public.

<sup>1</sup> “Definition of internal auditing,” The Institute of Internal Auditors, <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>, accessed 15 May 2020.

### **City auditor model**

Some Canadian municipalities have a “city auditor,” including Calgary, Edmonton, and Winnipeg. The city auditor is a distinct model that combines elements of the internal auditor and the auditor general models. Mandates of city auditors can vary significantly. They tend to have administrative independence. Their work plans tend to be approved by the audit committee or council. They usually report to council, or a committee of council. In addition to audit work, the city auditor provides consulting services on topics such as governance, risk, and control, if requested by the council or the city manager. Their audit reports are presented publicly to council in the interest of transparency.

### **Private sector accounting firms**

Large municipalities in Canada are commonly required to prepare annual financial statements and to have them audited by an external organization. While the statements are prepared by management, the audit results are reported directly to council or the audit committee of council. In many municipalities, the audits of financial statements are carried out by private sector accounting firms. The firms are often called “external auditors” because they are external to city management structure and council. This can cause confusion because auditors general are also external to management and council. For this report, we will refer to these external financial auditors as “private sector accounting firms.”

## Types of Auditing

Often when people hear the word “audit,” they think of financial audits, which involve determining the accuracy and reliability of an organization’s financial statements and whether the statements have been prepared in accordance with recognized accounting principles. In fact, there are different types of audits conducted in the Canadian public sector generally and in municipalities specifically. These are explained in **Table 1**.

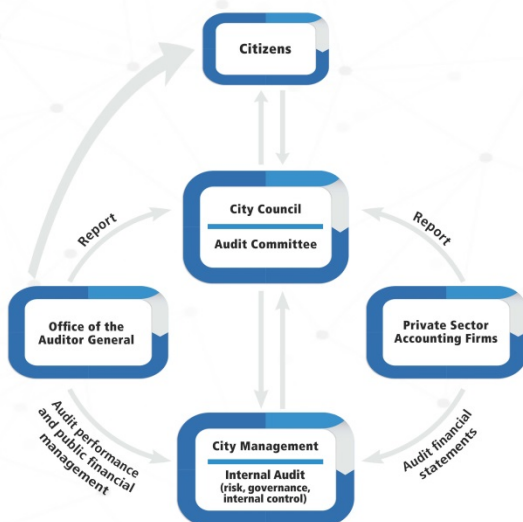
**Table 1 – Types of Audits and Who Does What**

	Auditor General	City Auditor	Internal Auditor	Private Sector Firm
<b>Performance audit</b> Efficiency, economy, and effectiveness of programs, services, and departments	X	X	X	
<b>Financial statement</b> Whether a municipality’s consolidated financial statements are accurate and have been prepared in accordance with recognized accounting principles	X*			X
<b>Internal audit</b> Whether risk management, control, and governance processes are effective		X	X	
<b>Compliance audit</b> Whether activities and transactions are following applicable legal requirements as well as internal codes of conduct, policies, and procedures	X	X	X	X
*In some jurisdictions, private sector firms work with the auditor general.				

## Auditing and Oversight Arrangements in the City of Vancouver

**Figure 1** illustrates the current and possible future auditing arrangements in the City of Vancouver. As shown, Vancouver currently has two audit functions: Annual financial statement audits and internal audit. The annual financial statements are prepared by City management and are audited by a private sector accounting firm. Audit results are reported directly to city council. The Internal Audit Division forms part of City management's overall approach to risk management and control, using the three lines of defence model described earlier. This means the IAD is focused on assessing the effectiveness of governance, risk management, and internal controls.

**Figure 1 – Current and Future Auditing Arrangements in the City of Vancouver**



On 22 January 2020, City Council received a briefing from the IAD concerning its role and work plan, findings and recommendations from internal audits conducted over the past six years, and the potential impacts to the IAD of establishing the new AGO Vancouver.

Some highlights from that briefing<sup>2</sup> are the following:

- IAD reports administratively to the Deputy City Manager and functionally to the internal audit management team (an internal audit committee). This team approves the IAD's audit work plans and reviews internal audit activities and results.

- IAD has an annual budget of \$890,000 and is staffed by five full-time equivalents.
- IAD's mandate and operating practices are defined in the Internal Audit Charter.
- From 2014 to 2019, IAD conducted over 90 audits, including audits of financial reporting (16%), regulatory compliance (23%), and performance (58%).
- Summaries of internal audit reports are posted on the City's website.

Vancouver City Council does not currently have a dedicated audit committee.

<sup>2</sup> Presentation to Council on 22 January 2020, City of Vancouver Internal Audit Division.



Also included in **Figure 1** is the new AGO Vancouver in order to show the distinctions between it and the City's internal audit and financial statement audit functions. AGO Vancouver and Internal Audit Division in particular differ in their core purpose and client. The Auditor General serves citizens and elected bodies by providing independent assurance over stewardship of public funds. The IAD serves management as part of its overall approach to risk management and control.

### What AGO Vancouver could look like

- Is independent from both City Council and City administration.
- Has an audit staff of 8 to 10 full-time equivalents.
- The Auditor General's term is a minimum of 7 years, non-renewable.
- Is mandated to conduct performance audits of public financial management, value-for-money, all expenditures, and to "follow the money."
- Shares IT and HR services with the City (with provisions to protect security and independence).
- Has separate premises.

### The Nature of Performance Auditing

Vancouver City Council's motion directed that the new institution be based on best practices and experiences in Canadian cities that have an auditor general. A key implication of this is that the new Office should be mandated to conduct performance audits, also termed "value-for-money" audits in some jurisdictions. Performance audit is practised by auditors general globally and at the federal, provincial, and municipal levels in Canada. This is evidenced by the CAAF's *Audit News* database, which currently holds approximately 7,000 performance audit documents from 57 jurisdictions around the world.

Performance audit is well defined in the international and Canadian auditor general community. It is universally known as an examination of whether government expenditures, programs, and organizations are performing in accordance with the principles of economy, efficiency, and effectiveness, also known as the "three E's."

- Economy is about getting the right inputs, such as goods, services, and human resources, at the lowest cost.
- Efficiency is about getting the most from available resources, in terms of quantity, quality, and timing of outputs or outcomes.
- Effectiveness is about meeting the objectives set and achieving the intended results.

The three E's provide auditors general a wide variety of subjects to audit. As well, through the lens of the three E's, performance audits often look at the following areas and ask the following types of questions:

#### **Results**

- Are intended results being achieved?
- Are organizations monitoring and reporting on their own performance?

#### **Systems and processes**

- Are management systems and internal controls well designed and operating as intended?

#### **Risk management**

- Is the organization appropriately managing significant risks related to achieving program outcomes and safeguarding public funds?

#### **Governance and oversight**

- Do organizations have effective governance practices and regimes?
- Are oversight bodies effectively discharging their responsibilities?

In some jurisdictions, performance audits integrate elements of compliance. That is, they determine whether the program or organization being audited is operating in accordance with applicable legislation, bylaws, policies, and specified authorities. In other jurisdictions, compliance audit is considered a separate type of audit.

Performance audits focus on public administration, the implementation of policy and programs, and the delivery of public services. They do not assess the merits of policy, the adequacy of program resources, or the actions of elected officials.

## Establishing the Office of the Auditor General

As noted earlier, there is no blueprint or recipe book on how to establish a new Auditor General institution, but there are a number of guiding principles and experiences to build on. This section is broken into two subsections: one that looks at these principles and a second that focuses on the building blocks and pathway to creating the new Auditor General Office for the City of Vancouver. We felt it would be important and helpful to distinguish between the theory and the practical application to the City of Vancouver.

### Guiding Principles

Auditors general are a feature of the Westminster parliamentary system and exist in virtually all Commonwealth countries, at national and provincial/state levels. Internationally, auditors general and their equivalents are known collectively as supreme audit institutions.

“Auditor General” is not simply a job title, it is a model of public sector audit that carries expectations for its design and ongoing practice, backed by professional standards. The design and operation of auditors general are guided by a number of globally recognized and interrelated principles developed by the International Organization of Supreme Audit Institutions, or INTOSAI.<sup>3</sup> These are described below. The Canadian Audit and Accountability Foundation believes that these principles apply to municipal auditors general in Canada and are relevant for the establishment of AGO Vancouver.

### Legal Mandate

Audit institutions require a statutory or legal framework that enshrines the mandate, functions, and independence of the institution and the individual. Many of the other guiding principles set out below need to be incorporated into the legal framework. In some countries, the position and function of the auditor general (or equivalent) is contained in the Constitution, telegraphing the importance of the role. In Canada, at the federal and provincial levels, this legal framework is dedicated legislation, such as an *Auditor General Act*.

### Independence

The most important principle that governs the design and operation of auditors general is independence. This is evidenced by INTOSAI’s 1977 Mexico Declaration on Independence, the first declaration by the global auditing community. It sets out the importance and elements of independence for supreme audit institutions.

<sup>3</sup> These principles come from the Lima Declaration and International Standards of Supreme Audit Institutions 12.

Independence has many dimensions, such as having the following:

- security of tenure
- legal immunity in discharging responsibilities
- freedom to decide on the content and timing of reports
- unrestricted access to information
- financial, managerial, and administrative autonomy
- appropriate human, material, and financial resources

In Canadian jurisdictions, the provincial and federal auditor general is an officer of and reports directly to Parliament or the legislative assembly. This means the auditor general is independent from the executive branch (and therefore does not report to a minister) and from the public service (often referred to as “management”). While legislative assemblies in Canada appoint the auditor general, they do not oversee or control the work of the auditor general. For example, they do not approve audit plans or the auditor general’s job performance. In Canadian municipalities, auditors general are independent of city council and management.

The principle of independence means that AGO Vancouver must be independent from both City administration and City Council. For example, City administration should not control or influence the Office’s budget, staffing, or mode of reporting and City Council should not direct the subjects to be audited or the content of audit reports.

### **Sufficiently Broad Mandate and Full Discretion in Discharging that Mandate**

The mandate given to auditor general institutions varies from jurisdiction to jurisdiction and is determined by the elected body. Auditor general institutions are commonly empowered to audit the following:

- use of public monies, resources, or assets by a recipient or beneficiary regardless of its legal nature
- economy, efficiency, and effectiveness (performance) of government or public entities’ operations and programs
- collection of revenues owed to the government or public entities
- legality and regularity of government or public entities’ accounts
- quality of financial management and reporting, otherwise known as public financial management

Except when specifically required to do so by legislation, auditor general institutions do not assess the merit of government policy but restrict themselves to the audit of policy implementation.

While respecting the laws enacted by the legislature that apply to them, auditor general institutions should be free from direction or interference from the legislature or the executive in the following:

- selection of audit issues
- planning, programming, conduct, reporting, and follow-up of their audits
- organization and management of their office

Auditor general institutions should not be involved in or be seen to be involved in the management of the organizations that they audit.



## Unrestricted Access to Information

Auditor general institutions should have powers to obtain timely, unfettered, direct, and free access to all the necessary information, documents, records, and data needed to properly discharge their statutory responsibilities. This includes all forms of electronic information.

In practice, provincial and federal governments have created some exceptions to unfettered access, such as certain types of information presented to cabinet for decision making. Such exceptions to access are usually not included in the governing legislation. Some provincial legislation and municipal by-laws include unfettered access for auditors general to information. Some auditor general institutions are compelled by their legislation to report to their respective legislatures when access to information is unduly restricted.

## Content and Timing of Audit Reports

Auditor general institutions should have both the right and obligation to report on their work and should not be restricted from doing so. Reporting on audit results means making them publicly available in a timely manner, using accessible language.

Typically, auditor general institutions are free to decide on the timing of their reports except where specific reporting requirements are prescribed by law. Most auditor general institutions are required to report at least once a year on their audit work. Many auditor general institutions report more frequently than annually.

Auditor general institutions should have the freedom to decide on the subject matters to be audited and to decide the content of their audit reports. Auditor general institutions are free to make observations and recommendations in their audit reports.

In practice, this freedom means that the legislature or its oversight bodies (such as the Public Accounts Committee) should neither direct specific subjects to be audited nor approve the audit office's annual work plan. That said, in many jurisdictions there is a provision in the governing legislation for elected bodies to make special requests for audits or investigations, although even then the institution has no legal obligation to carry out such audits.

## The Scope of the Auditor General's Mandate

As noted above, the mandate of an auditor general should be sufficiently broad and cover a wide range of activities. The scope of the auditor general's mandate, that is, who and what is subject to audit, should also be broad. An auditor general is often given a broad "follow-the-money" mandate. This means that they are empowered to audit all public monies directly or indirectly spent by the public administration as well as monies given to recipients of grants and contributions.

In some municipalities, the auditor general's mandate excludes the audit of city funded organizations such as police services, libraries, public health, and city-owned utility corporations

Typically, the governing legislation or bylaw for the federal, provincial and municipal auditor general institutions identifies which organizations are subject to audit or those that may be excluded. Even where

there are specific exclusions, the auditor general may still be able to conduct audits under certain circumstances, such as by request of the entity's governing body or with the legislature's approval.

### Financial and Administrative Autonomy and Sufficient Resources

Auditor general institutions should have access to the human, material, and monetary resources required to carry out their mandate. Neither the executive nor public administration should control or direct the access to these resources. Auditor general institutions should have the autonomy to manage their own budget and allocate it appropriately.

### Communications and Transparency

Auditor general institutions should communicate effectively with stakeholders by explaining the institution's role and responsibilities and helping them understand audit work and results.

Auditor general institutions should also promote transparency and their own accountability by:

- making public the institution's mandate, responsibilities, and strategies
- adopting good governance practices
- providing an annual and publicly available activity report to the legislature
- conducting a periodic independent review of their own operations and performance

On the last point, in the federal and provincial auditor general institutions, such independent reviews are known as "peer reviews." They are carried out by other auditor general institutions.

### Building Blocks, Pathway, and Recommendations

Described below are the "building blocks"—the actions and decisions required—for creating and sustaining a new Auditor General Office for the City of Vancouver. These appear in rough order of sequence, recognizing that some of these activities are iterative and can occur in parallel. The building blocks are illustrated in **Figure 2**.

**Figure 2 – Building Blocks on the Pathway to Creating AGO Vancouver**



An overarching consideration that runs throughout these building blocks and pathway is the need to protect AGO Vancouver's independence. As described previously, the fundamental characteristic of the auditor general model is independence. In calling for the creation of an "independent" Auditor General for the City of Vancouver, we believe Council has signalled that independence is its key priority.

In this section, we describe the building blocks and make recommendations for the City of Vancouver on its pathway to creating AGO Vancouver.

## **Building the Foundation**

### **Establish the legal basis**

A first order of business is to establish the legal basis for and mandate of the Office of the Auditor General of the City of Vancouver (AGO Vancouver). In some Canadian cities, the legal basis is set in a municipal code or bylaw. In others, it is established by provincial legislation such as an act or charter. The specific instrument to be used in this instance is a decision for City Council, following the City's established processes to create such legal instruments. AGO Vancouver may be created by a bylaw pursuant to powers under the Vancouver Charter.

The legal instrument (bylaw) needs to elaborate a number of provisions and principles described in the previous section. Many of these are aimed at safeguarding the independence of AGO Vancouver and are elaborated in subsequent sections of this report. These include:

- auditor general appointment and removal process
- tenure of appointment
- immunity from prosecution in the performance of normal duties
- mandate and powers and full discretion in discharging the mandate
- scope of monies and entities subject to audit (and any limitations), including recipients of public funding
- unrestricted access to information, in any and every form
- protection of audit files and working papers from disclosure
- provisions for special requests (non-binding) from City Council
- reporting (freedom to decide on content and timing, provision for issuing special reports)

Concerning the mandate, we recommend that AGO Vancouver be mandated to carry out performance and compliance audits that examine:

- use of all public monies, resources, or assets by the City, City-controlled entities, and recipients of public funding (subject to legislative exclusions)
- economy, efficiency, and effectiveness (performance) of government or public entities' operations and programs
- whether expenditures have occurred with proper authorization and according to an appropriation
- quality of public financial management including planning and budgeting, the allocation of funds to various activities, and the expenditure and accounting for spent funds

We have not drafted provisions for a model bylaw because we assume this will be undertaken by the City based on its established process and customary terminology. Appendix A contains links to existing bylaws establishing auditors general and extracts from the legal mandates of auditors general in selected Canadian cities. Vancouver City Council may wish to draw from these when establishing the legal framework for AGO Vancouver.

City Council may want to consider establishing a dedicated audit committee with appropriate terms of reference, possibly enshrined in the bylaw that creates AGO Vancouver. This is addressed in detail in the section of this report entitled Creation of an Audit Committee of City Council.

According to the legal instrument used in some Canadian municipalities, the auditor general is required to "inform" city council of its annual audit plan so that councillors and city staff understand what work the office will focus on. In some cities, the governing legislation or legal instrument calls for Council to "approve" the plan. A requirement to approve is contrary to the principle of independence and we recommend against this practice for AGO Vancouver. Should the City of Vancouver wish to include a provision to inform council on the audit plan, the bylaw should state that no deletions or amendments shall be made to that plan except by the Auditor General.

It is also important that the legal instrument include provisions to protect audit working papers and files from disclosure to third parties and to exempt these documents from provincial or municipal freedom of information legal provisions. This is because in the conduct of audits, auditors general are often provided information on a confidential basis. The disclosure of such information or sources could threaten the willingness of auditees to cooperate with the auditor or provide such information and thus hamper the audit's effectiveness. As discussed later in this report, it is also important to have information technology (IT) security measures to protect access to auditor general files.



### Recap of recommendations on the legal basis

- The legal basis for AGO Vancouver (bylaw) should reflect recognized principles designed to safeguard independence.
- AGO Vancouver should be mandated to conduct performance and compliance audits that address use of all public monies; the efficiency, economy, and effectiveness of programs and operations; and public financial management.
- AGO Vancouver should be provided full discretion in discharging its mandate, including unrestricted access to information and freedom from interference by City Council or City management.
- City Council may be informed of but should not approve the annual audit plan of the Auditor General
- Audit working papers and files should be protected from disclosure to third parties and freedom of information legislation.

### Determine resources and budget

The second order of business for City Council in establishing AGO Vancouver is determining the budget so it has the necessary human, material, and monetary resources to carry out its mandate. The CAAF believes the budget should be based on the considerations set out in subsequent sections of this report and should not be set arbitrarily. In Quebec the offices budget is equivalent to a set percent of the City's budget, with a minimum in place for smaller cities. While the AGO Vancouver may follow the City's customary budgeting processes, City management should not have authority or decision-making power over the Office's budget.

The primary driver in determining AGO Vancouver's overall budget will be the staff salary and benefits. The staff size needs to be adequate to support the Auditor General in carrying out the Office's mandate and functions. **Table 2** provides a snapshot of the most recent annual budgets of some other municipal auditors general in Canada relative to the size of overall budgets of those cities.

**Table 2 – Municipal Auditors General Budgets**

	Halifax	Montreal	Ottawa	Toronto
City population	440,000	2,100,000	1,000,000	2,950,000
City operating budget	\$965 million	\$6.2 billion	\$3.4 billion	\$13.5 billion
City capital budget	\$164 million	\$2.0 billion	\$730 million	\$3.8 billion
Auditor General budget	\$1.1 million	\$6.2 million	\$2.0 million	\$6.7 million
Auditor General office (full-time equivalents) <sup>4</sup>	10	36 (+ 3 unstaffed positions)	9 + contractors	36 + contracted employees

Based on our research and consultations, we believe that a complement of 8 to 10 full-time equivalent (FTE) professional audit staff is necessary to effectively discharge AGO Vancouver's audit mandate. Some municipal auditors general believe that a minimum of 10 professional audit staff will allow the office to operate with multiple audit teams and to provide the capacity needed for effective supervision, quality review, and compliance with professional auditing standards. Vancouver's population is a comparable size (estimated at 685,885 in 2019) to Halifax and Ottawa, which both have roughly 10 FTEs.

A second key driver in determining the auditor general's overall budget is operations and maintenance, or O&M. A key consideration is the extent to which the auditor general's budget must cover costs such as maintaining separate office premises, its own legal services and IT infrastructure, and shared corporate services. These matters are addressed later in this report, but in terms of setting AGO Vancouver's overall budget, they are important considerations, both in terms of cost and the implications they have on the Office's capacity and independence.

Other elements of an O&M budget include aspects such as staff training, contracting subject matter experts, publishing and communications, office supplies, licensing fees and professional dues. In the formative period of the new AGO Vancouver, there may be a need for such one-time O&M investments as developing the professional practices and Office methodology, initial staff training, and acquisition of software.

<sup>4</sup> Offices rely on permanent internal staff and contracted employees and/or consultants to carry out their operations. This means the number of FTEs does not necessarily reflect their full HR capacity.

As described later in this report, performance audits can identify opportunities to realize efficiencies and cost savings. One question that has arisen during our work is whether some or all of AGO Vancouver's budget should depend on potential cost savings identified by its audit work. In effect, this would be a form of cost recovery in which the very functioning of AGO Vancouver would depend on the extent to which it generates cost savings for the City. We believe this would adversely impact the Office's ability to provide assurance, its independence, and the topics chosen for audit, and we would therefore not recommend it.

### Recap of recommendations on resources and budget

- AGO Vancouver should be provided with adequate human, material, and financial resources to meet its mandate.
- The budget should not be arbitrarily set.
- At full capacity, AGO Vancouver should have 8 to 10 professional staff.
- City Council should keep in mind that its decisions regarding premises, IT infrastructure, administration, and corporate services impact the budget as well as the degree of independence.
- AGO Vancouver's budget should not depend on potential costs savings identified in the course of audit work.

### Putting the Pieces in Place

#### Recruit/appoint the Auditor General

As noted under the section Establish the Legal Basis, the Auditor General's appointment should be addressed in the legal instrument that creates the position and Office. Independence is a critical part of the role and this principle should also be applied in the recruitment, appointment, and remuneration of the Auditor General.

#### The recruitment process


The process to identify candidates for the position of Auditor General of Vancouver needs to be impartial and ensure that only candidates with appropriate knowledge, skills, and competencies are considered.

### Key attributes of the first Auditor General

Our consultations identified a number of characteristics, skills, and attributes that would be beneficial for an auditor general to possess. These key attributes are the following:

- experience in conducting and leading performance audits
- experience in municipal government and/or an awareness of the unique culture and challenges inherent in local government
- ability to work collaboratively with stakeholders while maintaining distance and objectivity

It is important to note that the first Auditor General will be getting the office up and running (in addition to carrying out ongoing audit activities) and so Council may also wish to seek a candidate with experience in building such institutions.



A hiring panel should be created to lead the recruitment process. It is important that the hiring panel members be aware of and understand performance auditing and the role and attributes of an effective auditor general. One way to obtain that expertise could be through including external members or advisors on the hiring panel. These external members could be former auditors general at the municipal, provincial, or federal level. Their understanding of the role from having served in the position would be invaluable in the recruitment process.

Our consultations found a range of practices concerning composition of a hiring panel. In some cases, the audit committee of council is the hiring panel, while in other cases, the hiring panel includes a mix of council members, mayor/deputy mayors, city manager, and director of human resources. As we note above, we recommend that management not participate on the hiring panel and that it include external members with expertise in performance auditing and the role of the auditor general.

The appointment process should be free from influence by City management. Because their departments will be subject to audits carried out by the auditor general, managers' involvement in recruitment cannot be considered impartial. For this reason, members of management should not participate on the hiring panel.

The hiring panel should operate under clear terms of reference that identify its roles and responsibilities. The panel should consider engaging an external recruitment firm to create a list of candidates and work with them to identify a shortlist for interviewing.

#### **Appointment**

The hiring panel should make the final recommendation to Council on the preferred candidate. The final decision on hiring should be made by Council. In some jurisdictions, this is decided by a minimum two-thirds vote of council.

#### **Tenure**

Our research and consultations found that a seven-year non-renewable term is common in Canadian municipal auditor general offices. The rationale is that a long term will do the following:

- encourage strong candidates to apply who may be reluctant to leave secure positions for a short-term assignment
- allow the auditor general to enact a long-term vision and plan for the office
- span electoral cycles, thereby providing additional independence by allowing the auditor general to carry forward their long-term vision across two Council mandates

Making the term non-renewable can help protect the auditor general's independence. The prospect of being reappointed may influence how an auditor general carries out their work. A non-renewable term helps ensure that they have a clearly delineated time frame to enact their vision for the office.



### Remuneration

An auditor general's remuneration should reflect the position's stature within municipal government as well as its independence. In many cases, the auditor general's salary range is commensurate with executive-level compensation in the municipality. An auditor general's compensation should be free from influence from city management. **Table 3** shows how other municipalities determine the auditor general remuneration.

**Table 3 – How Auditor General Remuneration Is Determined in Other Municipalities**

Halifax	Montreal	Ottawa	Toronto
<ul style="list-style-type: none"> <li>Salary is negotiated between the municipality and Auditor General.</li> <li>Increases are tied to average increase for senior staff.</li> </ul>	<ul style="list-style-type: none"> <li>Salary range is same as City's executive management.</li> <li>Municipal Auditor General salary range in Quebec is \$150,000–\$220,000</li> </ul>	<ul style="list-style-type: none"> <li>Salary range is same as City's executive management.</li> <li>Salary range is currently \$190,000–\$241,000.</li> </ul>	<ul style="list-style-type: none"> <li>Salary is linked to equivalent salaries.</li> <li>Salary is currently \$230,000.</li> </ul>

### Removal of the Auditor General

Auditors general are protected from removal so they cannot be intimidated or influenced into changing any of their work. There is commonly a minimum two-thirds vote of council threshold for the auditor general's removal, which can also only be done for cause or incapacity. This stipulation is typically set out in city bylaw, charter, or act.

Restricting how and who can remove the auditor general is an important safeguard of independence.

### Recap of recommendations on the Auditor General

- A hiring panel should be created to lead the recruitment process, ideally with external members and advisors with performance audit experience, and not including management.
- An external recruitment firm should be engaged to identify suitable candidates.
- A long (seven-year) non-renewable term should be set for the Auditor General.
- Remuneration for the Auditor General should be set in line with compensation for executive-level city staff.
- The Auditor General's compensation should be free from influence from City management.

### **Determine administrative arrangements**

AGO Vancouver, like any independent audit office, requires financial, managerial, and administrative authority as well as the appropriate human, material, and financial resources to discharge its responsibilities. These provisions would not normally be contained in the legal basis for the Office. Rather, these would be addressed in administrative arrangements.

The principle of independence also carries through to the administrative arrangements to support the new institution and the degree of financial, managerial, and administrative autonomy provided to the Office. Who determines the budget? Who determines staff salaries? Who does the hiring? Is there a separate Office website?

Another issue to be considered is the extent to which the new Office would be supported through common services provided by the City, such as staffing and HR management, payroll, IT, and accommodations. AGO Vancouver should have control over its communications and publishing, but may rely on City services or require extra resources to support this.

Another factor to consider is the relationship with the existing internal audit division. The City needs to determine whether both audit functions would remain and if so, what the relationship between them would be, if any.

### **Decide on premises and corporate services**

The costs of leasing and maintaining the auditor general's physical space, as well as corporate services (including human resources and information technology), are part of the basic logistics of creating a new office. Determining provision for these things must balance two important issues:

- maintaining the auditor general's independence
- being cost effective and taking advantage of the economies of scale by leveraging the City's pre-existing resources in these areas

#### **Premises**

The physical location of the Auditor General's office must consider the need for staff to maintain distance and objectivity in their interactions with City management. In an ideal situation, their offices would be separate from City-managed offices and City hall. Having the Auditor General's office "down the hall" from the City's executive management, for example, could affect their ability to maintain objectivity when interacting with auditees.

From a cost perspective, it may not make sense for the Auditor General's budget to provide for a separate lease when the City already has office space that would otherwise be underutilized. Nonetheless, if the Auditor General's office is to be located within City offices, additional steps should be taken to protect access to those premises.

Our research and consultations found varying arrangements in other municipalities for physical premises. In some cases, the auditor general's office is separate from city-managed office space (though with a city managing the lease), while in other cases they are within city office space. That decision will need to take into account what is economically feasible while ensuring the Auditor General Office of Vancouver can maintain its independence. Whether the Auditor General's physical premises are located within City hall, in another City-managed building, or in a separate office space, balancing cost effectiveness with maintaining independence is possible. Each of these arrangements has been put into action with success in other Canadian municipalities.

### **Human resource management**

An auditor general should be able to decide upon and manage their own human resources free from influence from city management. At the same time, they should be able to leverage the human resource management capacity the city already has for recruiting and managing its staff.

Our consultations found that it is fairly common for the auditor general's office to voluntarily follow city human resource policies and procedures while not necessarily being bound by them. For example, they may rely on the city's human resource services to support the hiring of staff, but not require signoff by city management to make an employment offer.

The auditor general's office may also use the city's existing compensation structures, pay ranges, HR policies, and procedures to guide its management of staff, but with the ability to adapt these to suit its unique needs.

Again, if City management can exert direct influence in these matters, the independence of AGO Vancouver could be affected. But it is arguably not cost effective for AGO Vancouver to build and maintain its own HR management capacity when there are readily available policies, guidance, and administrative support within the City's shared services.

### **Information technology management**

An auditor general office's IT infrastructure, including audit files and data, needs to be protected. This is more than a general concern about IT security and the protection of sensitive information. Being able to protect the confidentiality of and sources of information provided to the auditor and contained in audit files and working papers is a standard part of the audit process. There must be provisions to ensure that City councillors and management as well as the public cannot access this information.

It may not be feasible for AGO Vancouver to maintain its own infrastructure, and in many cases, auditor general offices rely on their city's IT services and servers. In these cases, offices must take additional steps to protect audit files and data from access by city management and staff. Audit files and software should be kept completely separate from City-managed data. AGO Vancouver's budget will likely need to provide for additional IT costs to support protection of its data, such as external hard drives, firewalls, and servers and cloud storage.

### Recap of recommendations on administrative arrangements, premises, and corporate services

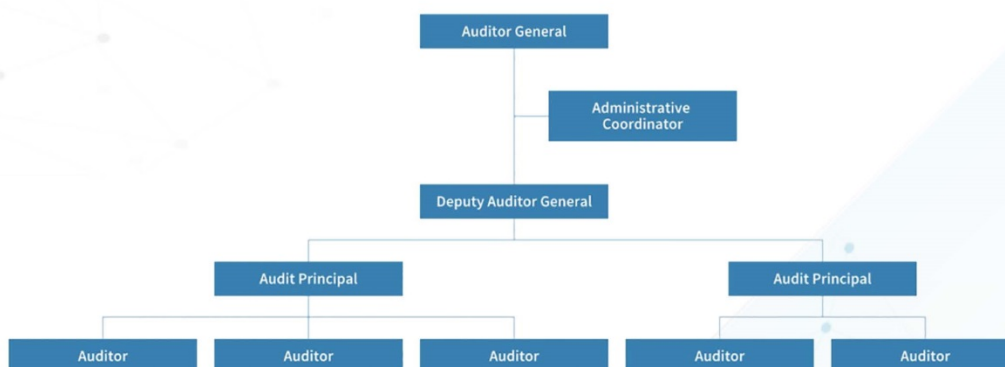
- AGO Vancouver's physical premises should ideally be separate from City offices, but if they are located within City offices, whether in City hall or in another City-managed building, additional security measures should be put in place to limit access.
- AGO Vancouver may rely on City-managed shared services for cost-effectiveness but should have the freedom to manage its corporate services in a way that maintains its independence from City management.

### Getting Up and Running (Led by the New AG)

#### Recruit and train staff

An auditor general should have the flexibility to recruit the staff they determine is necessary to fulfill their mandate. As noted earlier, the CAAF believes AGO Vancouver will require 8 to 10 FTEs of professional audit staff (including the Auditor General) to meet a typical mandate and to comply with professional standards. Ultimately, the total staff complement will be dictated largely by the budget allocated by Council. But as noted in the section on human resource management, AGO Vancouver's ability to hire staff should not be subject to approval by City management. It will ultimately be the AG Vancouver's decision as to how to structure the Office and how quickly to staff it. **Figure 3** provides an example organizational chart for the Auditor General's Office based on a staff complement of 10, with two audit teams.

**Figure 3 – Sample Auditor General's Organizational Chart**



Our consultations suggest that the Auditor General should not aim to recruit their full intended staff complement right away. The rationale is that early on in the Office's mandate, the focus should be on establishing how it will operate and then slowly ramping up capacity.



One challenge the Auditor General may face in recruiting staff is identifying candidates with the necessary skills and experience. Based on our consultations, recruiting experienced performance auditors can be challenging because the pool of candidates in Canada is not very large. Attracting candidates with appropriate public sector performance audit experience often means drawing on auditors who are currently employed in other levels of government and who have job security, competitive compensation, and benefits. Auditors also require experience and understanding of how local governments operate, as well as advanced skills using audit management software, Excel, and so on.

“The community of legislative auditors is very strong in Canada. The person who takes on this role [in Vancouver] will not be alone. The community will help and try to ensure success.”  
– Municipal Auditor General

Staff training will also be an important consideration for the Auditor General Office, especially early in its mandate. Their budget will need to cover staff training and professional development, including training courses, workshops, webinars, and other events to build technical and soft skills. Peer exchange is also an important part of an auditor’s professional development. There are a number of organizations and groups that the new Auditor General and staff can look to for guidance and support.

#### Recap of recommendations on staffing

- A staff complement of 8 to 10 FTEs should be hired because it will best allow the Office to discharge its mandate.
- The Office should be staffed up slowly, with audit professionals with experience in performance auditing and in local government.
- The Office should have a sufficient budget to support professional development for staff, both for training and peer exchange opportunities.

#### Determine audit practices, standards, and Office policies

Once the new Auditor General is in post and the new institution is operational (even if not yet fully staffed), important decisions need to be made and practices put in place to support audits. As described below, these include:

- choosing the professional standards the Office will adhere to
- developing Office policies and tools to guide the audits
- developing the audit methodology
- establishing the processes to develop the Office’s annual or multi-year audit and long-term strategic plans

#### Professional standards and Office policies

The types of audits carried out by the AGO Vancouver (performance, compliance, finance (non-attest)) should be selected, planned, conducted, and reported in accordance with professional auditing and assurance standards. It would be appropriate that the new Office’s legal basis refer to the need to conform

to standards, but should not specify which standards to use. The choice of which standards to adopt should be left to the new Auditor General.

In Canada, municipal auditor's general tend to use one of three sets of standards:

- Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada)
- International Standards for the Professional Practice of Internal Auditing, set out by the Institute of Internal Auditors (IIA), modified to exclude the standards related to consultation so as to maintain independence
- Generally Accepted Government Auditing Standards (also known as the Yellow Book), set out by the U.S. Government Accountability Office

In addition, the new Office will have to develop and apply policies that support the audit practice and the institution as a whole. Such policies would address issues of human resources, financial management, IT security, contracting, quality assurance, communications, and the like. These may be based on or identical to City of Vancouver policies except when they compromise the Office's independence.

#### **Audit methodology**

Soon after its formation, the new institution will need to develop its detailed methodology for selecting, planning, conducting, and reporting its performance audits. This methodology spells out such things as the following:

- how the professional standards and Office policies are applied
- the detailed process and procedures for auditors to follow
- provisions for quality assurance and control
- roles and responsibilities of team members (including requirement for supervision)

Many auditor general institutions consolidate the methodology into an audit manual and integrate its requirements into electronic tools for documenting audit work.

#### **Audit selection and planning**

A key task facing the new Office is to design a process for identifying and selecting audits and crafting these into an annual or multi-year plan of audits. Audit offices cannot audit every aspect of government, nor is it cost-effective to try to do so. Choices must be made. These choices directly affect how an office achieves its mandate and any objectives it has established for itself.

Although audit offices commonly consider factors such as relevance, significance, risk, and auditability when assessing potential audit topics, designing a process for identifying and selecting audits, and developing these into a multi-year audit plan, requires deciding how to address many challenges, such as:

- choosing whether to concentrate on certain priorities
- finding cost-effective ways to monitor risks and identify good audits

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- choosing what to communicate about the process and resulting plan
- engaging with citizens, city council and management
- keeping the plan up to date as circumstances and risks change
- assessing how well audit selection has worked

The CAAF has done extensive research into this issue, and detailed guidance for the new Office is available in our publication *Approaches to Audit Selection and Multi-Year Planning*.

### Recap of recommendations on audit practice, standards, and Office policies

- The legal framework should reflect AGO Vancouver's requirement to follow recognized professional auditing standards, but the choice of standards should be left to the Auditor General.
- In its formative period, AGO Vancouver should develop its audit methodology, policies and audit planning process and communicate relevant aspects to the city administration and the public.

## Improving Public Administration

### Conduct and report audits

The primary purpose of an auditor general is to provide independent assurance of the stewardship of public funds. In addition, many auditor general institutions see themselves as agents of change and seek to have their reports make an impact. The CAAF has done extensive research into this issue, which is contained in our publication *The Impact of Performance Audits: Defining, Measuring, and Reporting Impact*.

Many factors influence the impact of a performance audit. These can be divided into two categories:

- internal factors, which relate to the audit process and over which auditors have much control
- external factors, which are characteristics of the social and political environment in which auditors work and over which they have only limited influence or no influence at all

Auditor general institutions have a high degree of control over factors that relate directly to the audit process itself, such as the following:

- selection of audit topics
- expertise and competence of auditors
- auditor–auditee relationship
- quality of audit reports
- relevance of the audit recommendations
- presence of follow-up mechanisms and tracking systems to determine whether audit recommendations are implemented on a timely basis



There are also external factors over which auditor general institutions have little influence. In part, this is because legislative audit offices in the Westminster system are not granted enforcement powers to ensure that their recommendations are implemented. Instead, they must rely upon elected officials to hold audited organizations to account. Similarly, auditor general institutions do not control the media or the political agenda on any given day. There is therefore always a certain element of chance involved in publishing an audit report on a pre-selected date; the context might favour a high impact, or it might not.

Nearly all audit offices show the impact of their work in some way and use several methods to demonstrate value. According to CAAF research, auditor general institutions use a variety of indicators to report on the impact of their performance audits. The reported quantitative information generally falls into one of the following categories:

- **Statistics on audit recommendations.** This can include the percentage of recommendations accepted by the government, the percentage of recommendations implemented by the government, and the percentage of recommendations endorsed by the legislative oversight body.
- **Savings estimates.** These are estimates of savings and additional revenues generated by the implementation of audit recommendations.
- **Surveys of elected officials.** Surveys of elected officials seek their perception about aspects of performance audits and their satisfaction with the audit office's work.
- **Public Accounts Committee reviews of audit reports.** These are statistics on the number of audit reports reviewed by the Public Accounts Committee during the past year.<sup>5</sup>
- **Post-audit surveys of auditees.** These surveys include questions on auditees' perception of the value added by performance audits and their satisfaction with the audit process.
- **Media report statistics.** These are statistics on the number of media reports about published performance audits over a given period.
- **Website visit statistics.** These are statistics on website visits and audit report downloads. Audit offices gather these statistics to document how many times performance audit reports are downloaded or consulted on their website over a given period.<sup>6</sup>

These performance indicators are not used by all auditor general institutions and some are more popular than others. For example, most audit offices use one or more indicators about audit recommendations. Many audit offices also use surveys of auditees and/or elected officials. By contrast, very few offices report on their financial impact.

<sup>5</sup> In municipalities, the equivalent of a Public Accounts Committee would commonly be the audit committee of city council.

<sup>6</sup> *The Impact of Performance Audits: Defining, Measuring, and Reporting Impact*, CAAF, 2019, pp. 20–21.



### Showing financial savings

Taxpayers appreciate when a direct link can be made between money invested in an audit office and cost savings. Toronto is the only jurisdiction in Canada to routinely report on savings achieved, and is required to do so by the Toronto Municipal Code. The audit office has identified that every dollar spent achieved a return of \$11.50 between 2015 and 2019.

This number is calculated based on savings achieved after audit recommendations are implemented.<sup>7</sup> The National Audit Office in the United Kingdom and the U.S. Government Accountability Office also report on financial savings resulting from their audits.

“Our office has found it incredibly useful to do this work. Not only does it help City Council see our value, but it helps City management to see the impact they can achieve if they implement audit recommendations. And it shows the public that we’re all making efforts to ensure their tax dollars are spent in the best way possible.”

– Ina Chan and Niroshani Movchovitch, Toronto Auditor General’s Office (*Dollars Can Speak Louder Than Words: Reporting on the Financial Impact of Performance Audits*)

The Toronto Auditor General’s Office highlights financial savings in its annual report and has robust practices to validate the accuracy of reported information. It can do this with the work of four full-time staff who track the implementation of prior audit recommendations as part of their follow-up work, which includes estimated cost savings, among other ways of measuring impact.<sup>8</sup> The Office has developed a process that identifies one-time benefits, continued benefits, and potential benefits. Savings can be realized only when budgets are adjusted to reflect these findings.<sup>9</sup> For some audits, it is possible to calculate cost savings, but in other cases this is more difficult and other methods are chosen.

Aside from the three jurisdictions noted above, reporting by auditors general on potential cost savings is rare. Our consultations for this report as well as previous research have identified general concerns about being mandated to identify and report on potential financial savings, including:

- a fear that audit selection will be impacted, and that only areas with potential savings will be audited
- challenges with accuracy when attributing savings
- a risk when making assumptions about future spending that could be wrong
- the fact that allocating resources to track financial impact can take away from resources to conduct further audits

“Our biggest concern about showing the financial cost savings is it can impact audit selection.”  
– Municipal Auditor General

<sup>7</sup> “Dollars Can Speak Louder than Words: Reporting on the Financial Impact of Performance Audits,” CAAF, *Voices from the Field*, Issue #6, 27 February 2020.

<sup>8</sup> For an explanation of how this is done, see “Dollars Can Speak Louder than Words: Reporting on the Financial Impact of Performance Audits,” [www.caaf-fcar.ca/en/performance-audit/research-and-methodology/voices-from-the-field/voices-issue-67/limitstart=0](http://www.caaf-fcar.ca/en/performance-audit/research-and-methodology/voices-from-the-field/voices-issue-67/limitstart=0) or the Toronto Auditor General’s Office 2019 Annual Report – Demonstrating the Value of the Auditor General’s Office, [www.toronto.ca/city-government/accountability-operations-customer-service/accountability-officers/auditor-general/reports/auditor-general-reports/2019-annual-report-demonstrating-the-value-of-the-auditor-general-office/](http://www.toronto.ca/city-government/accountability-operations-customer-service/accountability-officers/auditor-general/reports/auditor-general-reports/2019-annual-report-demonstrating-the-value-of-the-auditor-general-office/)

<sup>9</sup> For more details on the criteria and process auditors follow to calculate cost savings, see the CAAF discussion paper *The Impact of Performance Audits*, [www.caaf-fcar.ca/images/pdfs/research-publications/ImpactPerformanceAudits-DiscussionPaperEN.pdf](http://www.caaf-fcar.ca/images/pdfs/research-publications/ImpactPerformanceAudits-DiscussionPaperEN.pdf)

### Showing non-financial impact

Some audit offices choose to demonstrate impact by highlighting the non-financial benefits, such as improved internal controls, better customer service, and increased public safety resulting from audit work.

These can be shown through stories or case studies that explain an audit's impact. These stories may summarize changes that have come as a result of an audit or outline the information an audit has brought to light. In a recent City of Toronto Audit Committee meeting, the chair summarized the impact of audit by saying, "Audit is not about money, it's about people." He went on to summarize how the work of the auditor general has helped the City of Toronto create additional housing, create childcare spaces, improve public safety, and contribute to a more collaborative work environment within the Toronto public service, while continually improving the process of oversight. He concluded by saying, "I find it a privilege to serve on this committee."<sup>10</sup>

In our analysis of 22 Canadian auditor general institutions (federal, provincial, and municipal), we found that the most common measurement tool used to track impact is the implementation rate of audit recommendations.<sup>11</sup> Typically, this includes the percentage of recommendations implemented by audited organizations. It is tracked at set intervals (such as one, three, and five years) after the audit is completed. Another way this is measured is by the percentage of audit reports reviewed by council (or Public Accounts Committee). This is an important measure because when elected officials dedicate time to review the report, it is more likely that city management will make changes.

### Recap of recommendations on conducting and reporting audits

- Audit selection should be based on risk-related and other criteria, not potential cost savings.
- Recommendations should be followed up, because it is one of the most important ways to ensure they are implemented.
- An appropriate way should be chosen to demonstrate impact and value.

### Special Consideration: The Internal Audit Division

Although this report is focused on how to create the new AGO Vancouver, we were asked by Council's Informal Working Group to consider the implications that this new institution may have on the City's existing Internal Audit Division (IAD). Driven in part by concerns over potential duplication of effort, and the cost of having both organizations, questions have arisen as to whether IAD should be merged with AGO Vancouver, retained as is, or eliminated altogether. These are difficult decisions that require detailed research and investigation.

<sup>10</sup> Councillor Stephen Holyday, Chair, City of Toronto Audit Committee Meeting, 10 February 2020.

<sup>11</sup> Ibid.

In our view, combining the two roles and functions into a single organization is unsound and should not be pursued: Internal auditors and auditors general differ too greatly in their core purpose and client. Auditors general serve elected bodies by providing independent assurance over stewardship of public funds. Internal auditors serve management by providing audit and advisory services to help their organization achieve its objectives.

In principle, the CAAF believes that both internal auditors and auditors general contribute to improved public administration, accountability, and good governance. Therefore, we believe the question of whether to retain or eliminate the IAD is more a question of cost and perceived affordability than it is of value and importance. Said another way, from the standpoint of effective public administration, and aside from questions of costs and perceived affordability, there may be compelling arguments in favour of retaining the IAD as a management tool for the City administration.

Finally, if Council decides to create the new Auditor General institution and to retain the IAD, both organizations need to be properly and fully resourced to be effective.

### **Auditors general and internal auditors can complement each other**

Auditors general and internal auditors have things in common. They both rely on rigorous audit methodology to carry out their work, strive to conform with professional standards, and sometimes have a similar focus in their audits.

They also have significant differences, including the degree of independence, the nature of their mandate, the subjects they audit, and most importantly, their core purpose and client: Auditors general report to and serve citizens and elected bodies whereas internal auditors report to and serve management.

Internal audit and auditors general can be complementary in their audit coverage and can coexist. In fact, they do in many jurisdictions, including the federal government, the provinces, and the City of Toronto. Both contribute to improved public administration, accountability, and good governance, and both can add value for their respective clients.

The focus of internal audits and performance audits can also overlap. For example, internal audit activity evaluates risk exposures among the organization's governance, operations, and information systems in relation to the following:

- effectiveness and efficiency of operations
- reliability and integrity of financial and operational information
- safeguarding of assets
- compliance with laws, regulations, and contracts



## Oversight by City Council: Creation of an Audit Committee

Vancouver City Council's decision to create an independent Auditor General has important implications for its own role. City council becomes the "oversight body" for the Auditor General's work, and is responsible for receiving audit reports and for holding City management accountable for correcting deficiencies and implementing the Auditor General's recommendations. In many municipalities, this oversight is exercised by a committee of council, commonly known as an audit committee.

"For Canadian municipalities with respect to policy goals, implementation strategies, and program execution, there are always opportunities for growth and improvements. A well-functioning and involved municipal audit committee provides the means by which council can hold itself accountable and to be accountable to the residents of the city."

– Jean Cloutier, City of Ottawa Audit Committee Chair

Under the auditor general model, city councils (or their audit committees) do not exercise oversight of an auditor general's office. For example, while an audit committee may receive the auditor general's annual audit plan, it should not approve it. Nor do councils or audit committees oversee the auditor general's job performance. Because of the need to protect independence, auditors general are not subject to traditional performance evaluations. To provide confidence that an audit office is performing as expected, at times, the office can be evaluated by an external organization. These evaluations can be carried out by other auditor general institutions (through what is commonly called the "peer review" process) or professional organizations.

"I chose to join the Audit Committee as I wanted, as a City Councillor, to better understand Council's role and responsibilities in the municipality. Financial audits only look at past spending and situations. An Auditor General provides reports that analyze city operations and activities in such a way that you can understand not only value for money but also how to improve management functions as well as the relevance, of the areas studied, to municipal operations. The AG's reports provide a more in depth understanding of how the city is run, through insight into how programs are run. Our audit committee provided us with dedicated time to analyze the reports and then oversee management to ensure the recommendations in the reports are implemented to the benefit of all of Council."

– Marianne Wilkinson, Former City of Ottawa Councillor and Audit Committee Member

## Principles of Effective Oversight Committees in Parliament and Provincial Legislative Assemblies

Federally and provincially, the system of accountability and oversight, as outlined earlier in this document, is well institutionalized. The Public Accounts Committee (PAC), on behalf of the parliament or legislature, is responsible for liaising with the audit office and for supporting the implementation of audit recommendations. The oversight system's effectiveness is highly dependent on having individuals and members committed to ensuring the system works.

Put simply, "An effective PAC holds entities publicly accountable for correcting deficiencies, implementing recommendations, and executing policies and programs in accordance with the legislature's intentions."<sup>12</sup> In order to do so, elected officials rely on the independent work of the auditor general's office to provide insight into administrative challenges. The PAC is different from other committees because it does not focus on policy creation, development, or analysis.

In fact, because audit reports focus on a program's administration, not the policy behind it, the committee intentionally seeks to avoid any reference to the merits of policy, to reduce the potential for partisan behaviour.

While there are notable differences between politics federally, provincially, and locally, the oversight systems are theoretically similar. An audit committee of the City Council is typically the oversight body for municipal governments.

## Role of the Municipal Audit Committee

There is an accountability relationship in municipalities, with council sitting at the apex (see **Figure 4**). Oversight ensures that management is accountable to citizens for the way the municipality spends resources and delivers services. It is common for councils in larger municipalities to create a committee responsible for reviewing financial statement and performance audit reports and for overseeing management to ensure that recommendations in performance audit reports are addressed. In many municipalities, the auditor general reports to council through this committee. The cities used in this study have all created audit committees.

Councillors, not auditors general, are responsible for ensuring action is taken on audit recommendations.

<sup>12</sup> Accountability in Action: Good Practices for Effective Public Accounts Committees, Canadian Audit and Accountability Foundation, Ottawa, 2017, p. 4.

Figure 4 – The System of Accountability



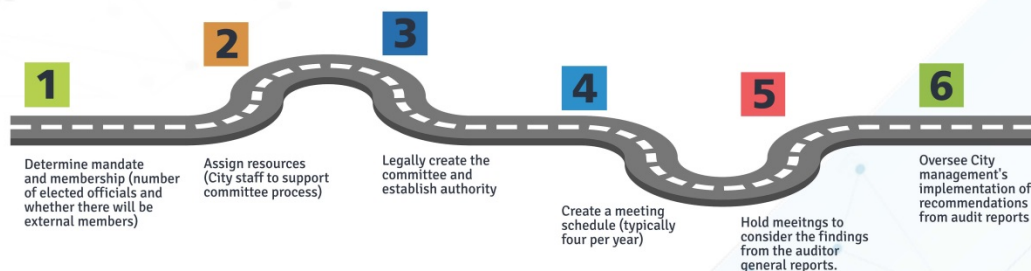
The committee typically makes recommendations on actions to council for next steps, rather than taking binding decisions as a committee. The committee's main purpose is to oversee that auditors' recommendations are implemented to improve the administration of city programs.

### Pathway for the City of Vancouver to Create an Audit Committee

The CAAF has extensively researched good practices to guide the creation and ongoing functioning of municipal audit committees, based on consultation with auditors, audit committee members, and professional organizations. These good practices and associated indicators are described in Appendix C.

Vancouver City Council does not currently have an audit committee and must first decide whether it wants to create one. For the reasons discussed in this section, we recommend that it create a dedicated audit committee to exercise oversight on its behalf. This section provides some insight into the principles of effective audit committees and the pathway to establishing an audit committee. These steps are summarized in **Figure 5**

Figure 5 – Pathway to Creating an Audit Committee



A separate audit committee allows for time to consider the auditor general's work; committee members can dedicate time to consider the issues and bring to the Council as a whole any relevant topics. In some jurisdictions, such as Toronto and Montreal, this includes financial statement audit. If it's not possible or



desirable to create a separate audit committee, then council as a whole must act as the audit committee and directly carry out its oversight responsibilities. Whether Council retains the oversight role, or creates an audit committee, exercising oversight effectively requires time and administrative support. Council will need to ensure that it, or the committee, has the appropriate resources and administrative support and dedicates enough time to complete the work. It will also need to determine the make-up of the committee as described in the section of this report below, Composition of the Audit Committee.

Either way, a key order of business is for City Council to develop a clear statement of responsibilities for itself (or the audit committee) in relation to the Auditor General's work and to embed these in a written mandate, bylaws, charter, and/or terms of reference. Council may also consider whether the existing statement of responsibilities for reviewing the audit of financial statements requires updating. These responsibilities are fully described in the section of this report below, Responsibilities of the Audit Committee. The mandates of audit committees in selected cities are in Appendix B.

The Committee should develop a system of follow-up to ensure audit recommendations are implemented. Management should be required to report regularly to the committee on its progress on implementing the action plans. This can include requesting action plans from management by a set time after an audit is released. Action plans have the following benefits:

- help the committee understand how, and by when, management plans to address the audit recommendations
- support the follow-up process by providing a blueprint for what management plans to do
- help to ensure that councillors and management have a shared understanding of the audit recommendations and what steps will be taken to address them

The committee should have the necessary staff to track that action plans have been received and that management is sticking with timelines they have laid out within them.

### Composition of the Audit Committee

To be most effective, the audit committee should have members with an collective understanding of accounting, public financial management, public sector auditing. Councillors are typically chosen to serve on the committee based on their personal interests and audit-related experience. Given the divergent background of elected officials in any given electoral cycle, it may not always be possible to have adequate coverage of the necessary skill sets. Membership on the audit committees from the cities used in this study vary in size from 5 to 12 (**Table 4**).

**Table 4 – Council and Audit Committee Sizes in Other Cities**

	<b>Council Size</b>	<b>Audit Committee Size</b>
<b>Vancouver</b>	10	N/A
<b>Halifax</b>	17	6 Audit Committee has 6 elected officials and 2 external members*
<b>Quebec City</b>	22	3 (plus mayor as ex officio)
<b>Montreal</b>	65	5 (plus 3 external members) *
<b>Ottawa</b>	24	7
<b>Toronto</b>	25	5
<b>Mississauga</b>	12	5
<b>Winnipeg</b>	16	7
<b>Edmonton</b>	13	7 (5 elected officials, 2 citizens)
*In Halifax, there is a subcommittee of the Audit and Finance Committee, called the Audit Committee and it has two external members. The Audit and Finance Committee is responsible for reviewing AG reports. The Audit Committee deals with external Financial audit reports only.		

Elected councillors have a variety of backgrounds and experience but not always in the domain of finance, audit and accountability. Many municipalities have members of the public on the committee to ensure all areas of expertise are met and this should be considered by Vancouver Council. External members should not be associated with the municipality's management. Often, these members support councillors in getting acquainted with the role when they are new to the committee. In this way, they contribute to the continuity of committee business.

Halifax Regional Municipality recently added two external members to its Audit Committee (a sub-committee of the Audit and Finance Committee). In Montreal, there are three external members, and both the chair and vice chair are chosen from among the external members. These are volunteer positions, recruited through a public notice of opportunity with a competitive process, including

interviews. They are appointed for set terms, set in advance of the process. In other jurisdictions, they are provided with a token remuneration.<sup>13</sup> For the purpose of continuity, the terms of the external members should not correspond directly with the electoral cycle.

Where political parties exist, committees will seek to have representation from each recognized political party so that each party's interest will be represented. In most municipalities, councillors are not remunerated for their involvement on the committee: it is seen as an extension of their role as an elected official. In some municipalities, councillors receive a stipend to chair a committee.

Recognizing that the cities chosen as examples for this study have larger councils than Vancouver's, we explored how cities with comparable population sizes to Vancouver dealt with audit committees. Of the four Canadian cities with the closest population sizes to Vancouver, all had audit committees. These ranged in size from 3 – 7.

In smaller jurisdictions, when the council as a whole acts as an audit committee, it should dedicate particular times during the meeting (or an entire meeting) to the business of audit. The following municipalities with populations over 100,000 are examples of cities that do not have audit committees: Delta, Langley, and Saanich in British Columbia, and Ajax, Kingston, and Whitby in Ontario.

A dedicated focus on audit is an important piece of an effective oversight system. It is what ensures action is taken on audit recommendations. Since a focus on the audit should be happening whether a specific audit committee is created or not, there are not big budget implications for the creation of a committee. The budget for an audit committee is typically included in the budget for council services. Meetings can be held in council chambers or in meeting rooms.

### Responsibilities of the Audit Committee

Exact responsibilities of an audit committee vary depending on jurisdiction. Some typical responsibilities are outlined below. Samples of audit committee mandates and terms of reference can be found in Appendix B.

As shown in **Figure 6**, the committee's work begins when it receives an audit report. In many cases, a single annual audit report contains the reports of several individual audits. Receiving the report should trigger the committee to request action plans from audited departments. Action plans outline how the department will address concerns raised in the audit. In some jurisdictions, all reports are examined by the audit committee. In others, only certain reports will be chosen for further analysis. It's a good practice to examine as many as possible: some audits will require further analysis by the committee.

<sup>13</sup> For example, in Edmonton, as of June 2020, public members on the audit committee were remunerated as follows for committee-related activities (meetings, preparation time, orientation sessions): \$157 for up to and including four hours in any day, \$278 for over four hours and up to and including eight hours in any day, and \$409 for over eight hours in any day.

Figure 6 – The Audit Committee Process in a Municipality



In Ottawa, Toronto and Halifax, much of the work of audit committees is conducted in public meetings. The auditor general and management will often appear in front of the committee at a public meeting. Public meetings are important for transparency and accountability. They are the committee's chance to do the following:

- engage publicly, in a constructive way
- focus on and understand the audit findings
- ensure there is a shared understanding of how any identified issues will be resolved
- get clarity on when and how recommendations will be implemented

There is value in allowing the audit committee to conduct some of its work in closed door meetings, for example to review audit results with the auditor in a closed-door meeting at some point before the public meeting. Closed-door meetings allow councillors to familiarize themselves with audit findings, before they need to respond to the report publicly. In many municipalities closed-door meetings can be difficult to hold because of the requirements set out in the municipal charter or other legislation that govern when they can go in-camera. Some audit standards require the ability to meet privately with management and with auditors. In Montreal and other Quebec municipalities with auditors general and audit committees, closed door meetings are used regularly.

To determine if an audit requires additional analysis, the committee will want to understand the audit and key implications of the audit findings. This can be daunting for audit committee members who may feel they are not well versed in the broad range of topics that audits cover and may not have experience with audits. For this reason, it is good practice to have an external member on the committee who understands the process of auditing and can share this perspective with councillors.

The committee is responsible for following up with the audited organization to ensure it implements the recommended changes. This can be done through written submissions or an in-person update from city management. The audit committee can move a motion to recommend that council as a whole take a particular action. In some municipalities, the committee can direct management to implement recommendations, or, when applicable, give confidential direction to staff in a closed session. If changes are not being made, the committee can hold a follow-up meeting with the relevant members of city management to ensure that changes are being made. Committee follow-up is essential to completing the process.



### Recap of recommendations on an audit committee

- Council should create an audit committee with 5 to 7 members.
- A clear mandate and terms of reference should be determined to deal specifically with audit work.
- External members should be allowed on the committee to ensure key skill sets are met.
- The committee should have the ability to meet publicly and in-camera to discuss audit reports with management and with the auditor.
- A follow-up process should be established to ensure audited organizations are making the recommended changes.

## **Appendix A – Selected Links to Bylaws and Legislation Establishing Auditor General Functions and Sample Auditor General Mandates**

The following are links to bylaws, codes, and provincial legislation establishing and setting out the mandates and powers of auditor general functions, as well as excerpted examples of mandate statements in provincial legislation and/or municipal bylaws and codes in selected Canadian cities. They are provided as examples of the legal basis for an auditor general function, but we are not suggesting that the specific provisions contained within them are necessarily the recommended provisions that Vancouver should look to adopt.

### **Bylaws and Legislation Establishing Auditor General Functions**

#### **City of Ottawa – Bylaw establishing Auditor General**

[http://ottwatch.ca/meetings/file/296219/Supporting\\_Document\\_By\\_Law\\_2013\\_375\\_pdf\\_Item\\_AUDITOR\\_GENERAL\\_S\\_AUTHORITY\\_TO\\_AUDIT\\_LOCAL\\_BOARDS\\_AND\\_MUNICIPALLY\\_CONTROLLED\\_CORPORATIONS\\_Meeting\\_Audit\\_Committee\\_Date\\_2015\\_06\\_15\\_09\\_30\\_00](http://ottwatch.ca/meetings/file/296219/Supporting_Document_By_Law_2013_375_pdf_Item_AUDITOR_GENERAL_S_AUTHORITY_TO_AUDIT_LOCAL_BOARDS_AND_MUNICIPALLY_CONTROLLED_CORPORATIONS_Meeting_Audit_Committee_Date_2015_06_15_09_30_00)

#### **City of Toronto – Municipal Code – Chapter 3 – Accountability Officers (see section 3 for Auditor General)**

[www.toronto.ca/legdocs/municode/1184\\_003.pdf](http://www.toronto.ca/legdocs/municode/1184_003.pdf)

#### **Halifax Regional Municipality Charter (see section 49)**

<https://nslegislature.ca/sites/default/files/legc/statutes/halifax%20regional%20municipality%20charter.pdf>

#### **Quebec Cities and Towns Act (see section 107)**

[www.legisquebec.gouv.qc.ca/en/ShowDoc/cs/C-19](http://www.legisquebec.gouv.qc.ca/en/ShowDoc/cs/C-19)


### **Sample Auditor General Mandates**

#### **Halifax Regional Municipality – HRM Charter (Auditor General Responsibilities)**

##### **Responsibilities of Auditor General (50)**

(1) The Auditor General is responsible for assisting the Council in holding itself and the Municipality's administrators accountable for the quality of stewardship over the public funds and for achievement of value for money in the Municipality's operations.





(2) The Auditor General shall examine, in the manner and to the extent the Auditor General considers necessary, the accounts, procedures and programs of the Municipality and any municipal body of the Municipality, as that term is defined in Section 461 of the Municipal Government Act, or person or body corporate receiving a grant from the Municipality, to evaluate (a) whether the rules and procedures applied are sufficient to ensure an effective control of sums received and expended, adequate safeguarding and control of public property and appropriate records management; (b) if money authorized to be spent has been expended with due regard to economy and efficiency; (c) if money has been spent with proper authorization and according to an appropriation; (d) if applicable procedures and policies encourage efficient use of resources and discourage waste and inefficiency; and (e) whether programs, operations and activities have been effective.

(3) In addition to the duties under subsection (2), the Auditor General shall examine those programs, policies and procedures as are requested by the Council to the extent that such examination can be reasonably accommodated.

(4) The Auditor General shall file annually with the Council a work plan of the Auditor General's activities.

(5) The Auditor General shall update the Council on any substantial departure from the work plan.

(6) The Auditor General shall (a) report annually to the Council in a public meeting; (b) file such report with the Minister; and (c) inform the Chief Administrative Officer of the contents of the report in advance of its submission to the Council, except when such report or such contents address issues involving the Chief Administrative Officer.

(7) In the report of the Auditor General, the Auditor General shall make recommendations, as appropriate, for improvements in the efficiency of the Municipality.

(8) Notwithstanding subsection (1), the responsibilities of the Auditor General do not include the matters described in subsections 46(2) and (3).

(9) The authority of the Auditor General to exercise powers and perform duties extends to any person, body corporate or association who or that receives a grant directly or indirectly from the Municipality and such authority applies only in respect of grants received by the grant recipient directly or indirectly from the Municipality or a municipal body of the Municipality, as that term is defined in Section 461 of the Municipal Government Act, after the date on which this Section comes into force.

(10) The Auditor General may delegate in writing to any person, other than a member of the Council, any of the Auditor General's powers and duties under this Section.

(11) The Auditor General may continue to exercise the delegated powers and duties, notwithstanding the delegation. 2008, c. 39, s. 50.

## **Toronto – Toronto Municipal Code (Responsibilities; Annual audit plan; Additional powers, duties, responsibilities)**

### **§ 3-3.3. Responsibilities.**

The Auditor General is responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City departments, the offices of the Mayor and members of Council, local boards (restricted definition) and City-controlled corporations.

Despite Subsection A, the Auditor General may undertake financial (excluding attest), compliance and performance audits and provide recommendations to the board, upon request by the following boards:

1. Toronto Police Services Board.
2. Toronto Public Library Board.
3. Toronto Board of Health.

The Auditor General shall only undertake an audit of the Toronto Hydro Corporation and its subsidiaries upon specific direction from Council in relation to:

- 1) A perceived breach by Toronto Hydro Corporation of the shareholder direction; or
- 2) A specific purpose or project where the Auditor General has not been able to obtain the necessary information either:
  - a) Through the shareholder direction reporting mechanisms; or
  - b) Through inquiries to senior management of the Toronto Hydro Corporation; or
  - c) Through a request from Council to the Chair of the Toronto Hydro Corporation.

All reports by the Auditor General on City controlled agencies and City corporations shall be submitted first to the agency or corporation's board of directors.

### **§ 3-3.4. Annual audit plan.**

The Auditor General shall submit an annual audit plan to Council.

No deletions or amendments to the annual audit plan shall be made except by the Auditor General.

Despite Subsection B, Council may add to the annual audit plan by a two-thirds vote of all Council members.<sup>14</sup>

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<sup>14</sup> Note that two thirds of all members is 18 members.

### **§ 3-3.5. Additional powers, duties and responsibilities.**

The Auditor General shall perform such other duties respecting audit matters as assigned by Council.

The Auditor General shall disclose to Council any attempts at interference with the work of the Auditor General's office.

#### **Ottawa – Ottawa Bylaw No. 2013-375 (Responsibilities – Audit)**

##### **Responsibilities**

###### **Audits**

(1) Subject to and in accordance with the provisions of this By-law, the Auditor General shall be responsible for assisting City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in municipal operations.

(2) Despite subsection (1), the responsibilities of the Auditor General shall not include the matters described in clauses 296(1)(a) and (b) of the Municipal Act, 2001, S.O. 2001, c.25, as amended.

(3) The Auditor General shall be responsible for carrying out financial (excluding attest), compliance, and performance audits of:

- (a) all programs, activities and functions of all City departments and agencies, and of the offices of the Mayor and Members of Council;
- (b) local boards of the City as defined in Part V.1 of the Municipal Act, 2001, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule "A" to this by-law;
- (c) municipally-controlled corporations as defined in the Municipal Act, 2001, S.O. 2001, c.25, as amended, and as may be further prescribed in Schedule "B" to this by-law;
- (d) grant recipients as defined in Part V.1 of the Municipal Act, 2001, S.O. 2001, c.25, as amended;
- and,
- (e) any other agencies, boards, commissions and corporations as Council may from time to time create or identify.

(4) At the request of Council or a board of directors, the Auditor General may conduct financial (excluding attest), compliance and performance audits of autonomous organizations that have an agreement with the City that contains provisions for an audit by the City.

(5) The audit work plan shall be approved by Council. Approved audits shall be conducted shall be conducted at such time and to the extent that the Auditor General considers appropriate, and the Auditor General shall establish such protocols and procedures that are necessary for the conduct of such audits, consistent with the City of Ottawa Audit Standards (modified from the Standards for the Professional Practice of Auditing), as approved by Council on June 13, 2012.

(6) The Auditor General shall not call into question or review the merits of the policies and objectives of Council.

## **Montreal – Cities and Towns Act (section 107.7)**

### **Legal person to audit**

107.7. The chief auditor shall audit the accounts and affairs:

(1) of the municipality;

(2) of every legal person

- a) that is part of the reporting entity defined in the municipality's financial statements;
- b) of which the municipality or a mandatary of the municipality appoints more than 50% of the members of the board of directors; or
- c) of which the municipality or a mandatary of the municipality holds more than 50% of the outstanding voting shares or units;

(3) of any body referred to in the first paragraph of section 573.3.5, provided

- a) in the case of a body referred to in subparagraph 1 of the first paragraph of that section, it is the mandatary or agent of the municipality;
- b) under subparagraph 2 of the first paragraph of that section, the majority of the members of its board of directors are members of the council of, or are appointed by, the municipality;
- c) its budget is adopted or approved by the municipality;
- d) in the case of a body referred to in subparagraph 4 of the first paragraph of that section, it receives part or all of its financing from the municipality; or
- e) or in the case of a body designated under subparagraph 5 of the first paragraph of that section, it has its principal place of business in the territory of the municipality.

If, under this section, section 108.2.0.1, article 966.2.1 of the Municipal Code of Québec (chapter C-27.1) or section 86 of the Act respecting the Commission municipal (chapter C-35), a mandate to audit certain aspects of the accounts and affairs of a body referred to in section 573.3.5 is entrusted to more than one auditor, the audit of those aspects must be conducted exclusively by the following designated auditor:

(1) the chief auditor of the municipality with the largest population;

(2) if no chief auditor of a municipality is concerned, the Commission municipale du Québec;

(3) if neither a chief auditor of a municipality nor the Commission is concerned, the external auditor of the municipality with the largest population

107.8. The audit of the affairs and accounts of the municipality and of any legal person or body referred to in subparagraph 2 or 3 of the first paragraph of section 107.7 includes, to the extent considered appropriate by the chief auditor, financial auditing, auditing for compliance of their operations with the Acts, regulations, policies and directives, and auditing for value-for-money.



## Appendix B – Selected Samples of Audit Committee Mandates and Terms of Reference

### Halifax

"The purpose of the Audit and Finance Standing Committee is to provide advice to the Council on matters relating to audit and finance. The other purposes of the Committee are to: fulfill the requirements as outlined in Section 48 of the HRM Charter; and to assist the Council in meeting its responsibilities by ensuring the adequacy and effectiveness of financial reporting, risk management and internal controls."<sup>15</sup>

### Ottawa

"The Audit Committee is responsible for overseeing all audit matters and receiving the annual and ad hoc reports from the City's Auditor General. The Committee is responsible for both the external audit process as well as matters related to the Office of the Auditor General."<sup>16</sup>

### Montreal

From the Cities and towns act (107.17):

"The committee shall submit opinions to the urban agglomeration council on the requests, findings and recommendations of the chief auditor concerning the urban agglomeration. It shall also inform the chief auditor of the interests and concerns of the urban agglomeration council with respect to the audit of the accounts and affairs of the central municipality. On an invitation by the committee, the chief auditor or a person designated by the chief auditor may attend a sitting and take part in deliberations."

### Toronto

"The Audit Committee's mandate is to recommend the appointment of the City's external auditor, recommend the appointment of an external auditor to conduct the annual audit of the Auditor General's office, consider the annual external audit of the financial statements of the City and its agencies, boards, and commissions, consider the external audit of the Auditor General's office, consider the Auditor General's reports and audit plan, conduct and annual review of the Auditor General's accomplishments and make recommendations to Council on reports the Audit Committee considers."<sup>17</sup>

<sup>15</sup> Halifax Regional Municipality, [www.halifax.ca/city-hall/standing-committees/audit-finance-standing-committee](http://www.halifax.ca/city-hall/standing-committees/audit-finance-standing-committee), accessed 14 May 2020.

<sup>16</sup> City of Ottawa, <https://ottawa.ca/en/city-hall/your-city-government/council-and-standing-committees>, accessed 14 May 2020.

<sup>17</sup> City of Toronto, [www.toronto.ca/legdocs/e-updates/subscribe.htm](http://www.toronto.ca/legdocs/e-updates/subscribe.htm), accessed 14 May 2020.

## Appendix C – Good Practices to Strengthen Municipal Audit Committees for Municipalities with an Auditor General

Good practice	Indicators
<b>Foundations</b>	
1. The audit committee (or equivalent) has a clear statement of responsibilities (such as the mandate, bylaws, charter, and/or terms of reference).	<ul style="list-style-type: none"> <li>▪ The committee's responsibilities have statutory authority (from provincial governments and/or city bylaws).</li> <li>▪ The committee has clear written terms of reference and/or mandate.</li> <li>▪ The committee's power to convene its own meetings is enshrined in bylaws.</li> <li>▪ A minimum number of meetings to address audit reports (from the auditor general, internal audit, and external auditor, depending on municipality) are guaranteed.</li> <li>▪ Committee members are permitted to meet privately with the auditor.</li> <li>▪ If it's not possible to create a separate audit committee and the council or board as a whole must act as the audit committee, it convenes itself as an audit committee to address the specific audit committee responsibilities.</li> </ul>
2. The committee members are informed about key accounting principles related to risk, and the application of audit standards by auditors.	<ul style="list-style-type: none"> <li>▪ The standards used by and for the audit are discussed at the audit committee with the auditors, and the interpretation of these standards is disclosed in the auditors' audit plan.</li> <li>▪ Audit standards are explained to councillors or board members when requested.</li> <li>▪ Council or board members understand the implications of the standards that are the foundation of how auditors reach their conclusions.</li> </ul>
3. The committee has the appropriate budget, resources, and administrative support to complete the work.	<ul style="list-style-type: none"> <li>▪ The committee develops an annual plan that outlines the elements to be covered in each planned meeting to align with its stated responsibilities and the timeline of related activities.</li> <li>▪ Each meeting agenda is developed to reflect the annual plan and other pertinent topics that arise during the year.</li> <li>▪ The committee has sufficient support staff to undertake its duties, such as organizing the meetings, making necessary documents available, setting up the communication and presentation technology, taking minutes, and supporting follow-up.</li> <li>▪ The committee has a suitable space to meet, and a regular, or predictable, meeting time.</li> <li>▪ Staff announce meeting times and agendas in advance.</li> <li>▪ The committee has a budget or a procedure to hire an expert, if needed.</li> </ul>



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Good practice	Indicators
<p><b>4.</b> The committee is composed of members with appropriate expertise.</p>	<ul style="list-style-type: none"> <li>There is a defined process to appoint elected councillors and to select external members on the committee.</li> <li>The council determines the process to select the committee chair, taking into account expertise, skill set, and independence.</li> <li>The committee has the mandate and means to include external members to complement skill sets. Where external membership is not permitted, members have the resources to consult experts, as required.</li> <li>There are members with accounting, public finance, and audit expertise.</li> <li>Committee members do not have a current or recent management function in the municipality.</li> <li>Members, particularly external members, complete an annual questionnaire on compliance with a code of ethics and independence.</li> <li>If a conflict of interest or perceived conflict exists, the member declares it and excuses themselves from the meeting.</li> </ul>
<p><b>5.</b> The committee ensures its members have adequate and relevant orientation.</p>	<ul style="list-style-type: none"> <li>Committee members are given an orientation that explains the committee's purpose, procedures, and the roles of the chair and of members.</li> <li>Members understand the types of audit (financial audit, performance audit, internal audit, and special studies), their general audit process, and the role of the audit committee in regard to each type of audit.</li> <li>Committee members have access to professional development to ensure they understand current issues that impact their role.</li> <li>The committee ensures its members are aware of good practices and how they are applied at their committee.</li> <li>The committee has an agreed-upon process for dealing with the media. Members are offered training on how to interact with the media.</li> <li>Committee members understand the accountability relationships among the external auditors, the auditor general, the Director General, and the Treasurer.</li> <li>Members understand the importance of the accountability relationships and follow up to support the implementation of recommendations.</li> </ul>
<p><b>Actions</b></p>	
<p><b>6.</b> The committee and its chair foster a cooperative relationship between members around a commitment to improving public accountability.</p>	<ul style="list-style-type: none"> <li>Cooperation and respect among members are encouraged.</li> <li>Questions, concerns, and differences of opinion are openly addressed in a respectful manner.</li> <li>A focus on fulfilling the committee's mandate and improving public accountability is used to unite members even when they face differences of opinion and of priorities.</li> </ul>

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Good practice	Indicators
7. The committee engages constructively with management.	<ul style="list-style-type: none"> <li>▪ Interdependence between the committee, auditors, and management is fostered, while independence roles are respected.</li> <li>▪ The committee treats invited guests respectfully.</li> <li>▪ Members ask constructive questions to understand management's perspective.</li> <li>▪ Questions are related to the topic being addressed.</li> <li>▪ The appropriate member of staff is called to answer any committee questions and provide, when necessary, related documentation.</li> <li>▪ The scope of the meeting is communicated to managers for the area under discussion, in advance of a meeting, so they can prepare appropriately.</li> <li>▪ Members ensure their questions are answered and request written follow-up if questions cannot be answered at the meeting. The meeting minutes are a good record of the answers provided by management and of the necessary follow-up.</li> </ul>
8. The committee has dedicated time on the agenda to look at audit reports.	<ul style="list-style-type: none"> <li>▪ The committee dedicates sufficient time to:               <ul style="list-style-type: none"> <li>○ analyze and understand the financial statements and discuss the audit results and the related audit opinion</li> <li>○ discuss the reports of the external financial auditor or the auditor general issued about the financial statement audit</li> <li>○ examine and discuss the auditor general's reports issued on performance audits or special studies</li> <li>○ examine and discuss the pertinent reports issued by internal function, such as internal auditor, controller general, and inspector general</li> </ul> </li> <li>▪ The committee has dedicated time to speak privately with the auditors to get clarity on:               <ul style="list-style-type: none"> <li>○ the reports</li> <li>○ the relationship with management</li> <li>○ any difference of view with management</li> <li>○ any particular risk of fraud or other issues</li> </ul> </li> </ul>
9. The committee reports to council on its work.	<ul style="list-style-type: none"> <li>▪ The committee reports to council on management's progress on implementing audit recommendations until the implementation is concluded.</li> <li>▪ The committee issues an annual report to the council or board that summarizes how it has achieved its mandate and responsibilities and its activities. In this report, the committee makes comments on issues and matters of concern and makes recommendations when necessary. This will permit the council or board to acknowledge the committee's work and also ensure that the committee has a proper record of its work.</li> <li>▪ The committee evaluates its own work and reflects on it (through an anonymous survey, peer review, and/or self-assessment).</li> </ul>

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Good practice	Indicators
<p><b>10.</b> The committee is responsible for ensuring audit recommendations are implemented.</p>	<ul style="list-style-type: none"> <li>▪ The committee discusses the recommendations raised by audit reports.</li> <li>▪ The committee obtains assurance that the management accountability process is effective in monitoring implementation of the management action plans responding to the audit recommendations.</li> <li>▪ The committee communicates with management to obtain direct information about the action plans and to make any necessary improvements to the accountability process, and invites management to attend audit committee meetings in this regard.</li> <li>▪ The committee follows up with management and auditors to ensure, with evidence, that recommendations have been implemented.</li> <li>▪ The committee, in its report to the council, is allowed to make recommendations in addition to the auditor's.</li> </ul>
<b>Follow-up</b>	
<p><b>11.</b> The committee gets action plans and status updates from departments that outline how they will implement recommendations.</p>	<ul style="list-style-type: none"> <li>▪ Management provides detailed action plans in response to the audit recommendations.</li> <li>▪ The action plans are reviewed, and the implementation of the recommendations is tracked and recorded.</li> <li>▪ Through collaboration with the auditors and the Director General, the committee obtains and reviews detailed status updates from departments.</li> <li>▪ The plans provide detail on how management will address the auditor's recommendations and who has responsibility for implementation.</li> <li>▪ The action plans and status updates include realistic timelines and completion dates.</li> </ul>
<p><b>12.</b> The committee ensures the continuity of work and transfer of knowledge.</p>	<ul style="list-style-type: none"> <li>▪ The council or board appoints an audit committee in a timely manner following an election.</li> <li>▪ The committee has a method to ensure that work continues when committee membership changes.</li> <li>▪ The committee has an orientation session that includes a record of committee work for their review.</li> <li>▪ Training is provided to new committee members.</li> </ul>

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