



Office of the Auditor General City of Vancouver

2022 Annual Report and 2023 Operational Plan

January 2023



26 January 2023

To the Mayor and Council of the City of Vancouver,

In accordance with section 3.11 of the *Auditor General By-law*, I submit my 2022 Annual Report.

I release this report in conjunction with my 2023 Audit Plan, which outlines the audits we intend to undertake over the next three years.

Although I am required to provide only an Annual Report, this document is also the OAG's Operational Plan. In this way, Mayor and Council can readily see in one place how my office has performed, where it is now and where it is headed. As a transitional measure in the OAG's first months of existence, the goals, key performance indicators and targets included in this document were initially reported in my 2022 Audit Plan.

While there were challenges and delays in building the Office of the Auditor General for the City of Vancouver (OAG), nonetheless I look back with satisfaction at the milestones achieved over the first 16 months of its existence, and know there are even larger ones on the horizon in the first quarter of 2023. Above all, I am proud of the team that has come together and the work we have done on our first audit projects.

I would like to thank the City Manager, the City Clerk and their teams for their support in setting-up this new office, and their willingness to collaborate through the many challenges involved in establishing a new independent audit function that, while part of the City, is separate from its operations and leadership.

I also thank the current Mayor and Council, as well as the previous Mayor and Council, for the opportunity to contribute to improving the economy, efficiency and effectiveness of the City's operations.

Mike Macdonell, MBA, CFE, FCPA, FCA
Auditor General
Vancouver, BC

About the Office of the Auditor General

The Auditor General By-law No. 12816 (AG By-law) was enacted by City Council on November 4th, 2020.



Photo: Kent Kallberg

Pursuant to the AG By-law, Mike Macdonell was selected by the Auditor General Recruitment Committee and was appointed by Council as the City of Vancouver's inaugural Auditor General for a seven-year term commencing September 7th, 2021.

Section 3 of the AG By-law describes the Auditor General's mandate and responsibilities as follows:

- to assist 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;
- to carry 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 (responsibility for auditing the annual financial statements of the City is described in the *Vancouver Charter* and is excluded from the responsibilities of the Auditor General);

- to undertake financial (excluding attest), compliance and performance audits and provide recommendations to a Board, but only upon request of that Board;
- to consider undertaking such other duties respecting audit matters as are recommended by Council from time to time; and,
- to immediately report to Council any attempts at interference with the work of the Office of the Auditor General.

The AG By-law stipulates that the Auditor General is accountable only to Council and, although an employee of the City, does not report to and is not accountable to City staff. Functionally, the Auditor General reports to the Auditor General Committee (AGC), a sub-committee of Council comprised of five Councillors and two lay representatives.

First Year of Operations

The OAG transitioned from building to performing over the course of this first full year of operations. Lori Berndt, Deputy Auditor General, joined the OAG on March 7th with additional team members added over the next seven months. The eighth and final team member joined us on October 31st.



OAG team members left to right: Felix Cheu, Subran Premachandran, Lori Berndt, Jenny Lau, Mike Macdonell, Kenny Cham, Stacey Lee, Cindy Cheng, Lorinda Stoneman

The office occupies a small section of a City-owned building on the corner of Cambie and West 10th Streets, referred to as the West Annex. Consistent with the OAG's independence from City operations, a secure physical space was needed. Construction began at the beginning of Q4 and, although some furniture and fixture items remained outstanding, the project was substantially complete by end of year. Also in process at year-end was our acquisition of audit support software.

The first draft of the OAG Performance Audit Manual was completed in Q1. Also referred to as the Professional Engagement Manual, the manual provides the Auditor General's detailed instructions to the audit team for the planning, conduct and reporting of audits in accordance with Canadian Audit Standards. The manual was also the basis for performance audit training that was delivered to team members in three full-day sessions throughout Q4.

After the election, the Auditor General provided an orientation session to Mayor and Council to review the OAG's mandate, status of work underway and key issues. The Auditor General also then met with each Councillor individually.

Under the AGC's Terms of Reference, follow-up on the Auditor General's recommendations is the responsibility of Council. Council and the Auditor General agreed on a process that will see the OAG coordinate a semi-annual self-assessment process on the status of outstanding audit recommendations. This non-assurance report (no audit or other verification is conducted) will provide an efficient and effective mechanism to ensure Council-approved audit recommendations receive appropriate attention and monitor the status of implementation.

Audit Work

On March 17th a planning meeting was held with senior staff from the Development, Buildings and Licensing department, marking the beginning of the OAG's transition from building to performing. Three audits were underway as of December 31st, with final reports scheduled for release in January, February and April 2023. Further detail regarding audit projects is contained in the 2023 Audit Plan.

Whistleblowing

At the request of the AGC, the Auditor General conducted a study of whistleblower practices in comparable local governments (those with an Auditor General or equivalent). The results of this study were reported to the AGC at its meeting on April 22nd, highlighting three significant issues with Vancouver's approach to whistleblowing. The report recommended that Council expand the definition of whistleblower to include complainants external to the City, and that Council consider whether revisions to the City's Whistleblower Policy were warranted in light of the appointment of an independent Auditor General and Integrity Commissioner.

The AGC endorsed the first recommendation, but enhanced the second recommendation to direct City staff to revise the Whistleblower policy so that the Auditor General is delegated responsibility for:

- The intake, assessment and investigation of complaints;
- Making recommendations for corrective action; and
- Publicly reporting results.

Complaints involving elected officials are to be referred to the Integrity Commissioner.

As of December 31st, amendments to the City's Whistleblower Policy had yet to be brought to Council for approval. Development of processes and procedures to implement Council's direction, including the hiring of investigation staff, will commence once an amended Whistleblower Policy has been approved by Council.

Performance Framework

Mandate – To assist 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.

Mission – To provide assurance that City of Vancouver services are delivered with due care for economy, efficiency and effectiveness.

Goals – Consistent with the practices of leading legislative audit offices in Canada, the operations of the OAG are focussed on achieving key strategic goals. The four goals identified below reflect priorities in measuring the office's ongoing performance and impact.

2022 Goal 1 – To establish an operational OAG.

As detailed in the next section, the vast majority of work necessary to make the OAG operational was completed during 2022, and the office did transition to full operations during the year. As a result, this goal is considered to have been achieved and will be discontinued going forward.

However, during the year Council directed expansion of the Auditor General's mandate to include whistleblowing. Legislative and policy changes necessary to implement this change are still in process, nonetheless, in anticipation of this transition the OAG as adopted a new Goal 1.

2023 Goal 1 – To establish an independent whistleblower function within the OAG.

Goal 2 – To produce objective, high quality audits in accordance with Canadian Audit Standards.

Goal 3 – To provide City departments with objective, helpful recommendations.

Goal 4 – To produce a positive return on investment for Vancouver taxpayers.

Key Performance Indicators

2022 Goal 1 – To establish an operational OAG.

Performance Highlights: Planning interviews for our first audit began on March 17th marking the beginning of the OAG's transition from building to performing. As of December 31st the OAG was fully operational and, as a result, this goal is considered complete and will be discontinued going forward.

KPI	Description	2022 Target	2022 Actual
Number of staff hired in 2022	The OAG's audits will be conducted by a team of highly trained professionals. Procuring sufficient and appropriate staff capacity is the most important input to making the office operational.	8	8
<u>Notes:</u> Team members were added incrementally between March and October. All operational and administrative staff were in place as of October 31 st .			
Complete physical office set-up	Providing an appropriate, secure workspace in the City's West Annex will be an essential milestone in establishing a functional office.	Q2 2022	Q4 2022
<u>Notes:</u> Renovations to the OAG's West Annex space were delayed, but were substantially complete by December 31 st . Installation of office furnishings by REFM remained incomplete, but was in process.			
Complete OAG foundational components	Key milestones necessary to make the office ready for operations include completion of a professional engagement manual, OAG policies and audit templates, and staff training on these materials.	Q3 2022	Q4 2022
<u>Notes:</u> The OAG Performance Audit Manual, OAG Policies for Media Relations and Social Media and audit templates were in place by the end of Q3. Performance audit training was delivered by the end of Q4. Though not explicitly noted in the description, acquisition and implementation of an audit software platform in an important component of the OAG's operations, and remained outstanding at year-end due to IT support capacity constraints.			

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2023 Goal 1 – To establish an independent whistleblower function within the OAG.

KPI	Description	2023 Target
Number of investigators hired in 2023	Council directed City staff to revise the Whistleblower policy to assign responsibility for the whistleblower function to the Auditor General. Through the budget process, Council's Auditor General Committee has endorsed the hiring of two staff in 2023.	2
Develop and operationalize procedures and infrastructure to support the OAG's independent whistleblowing function	Develop and implement administrative procedures for the intake, processing, investigation and reporting of whistleblower activities. Acquire and install an IT platform to support the OAG's whistleblower function.	Q4 2023

Goal 2 – To produce objective, high quality audits in accordance with Canadian Audit Standards.

Key Performance Indicators

KPI	Description	2022 Target	2022 Actual	2023 Target
Number of reports produced	Audit reports are the principal output of the OAG's operations and the primary means of communicating the results of our work to Council and the public.	3	1	6
<p><u>Notes:</u> A study of whistleblowing practices was prepared at the request of the AGC and released on April 14th. Delays in the hiring of staff resulted in delayed starts for all of our audits. Three audits were underway as of December 31st, with reports scheduled for release in January, February and April 2023. The OAG 2023 Audit Plan provides more information on upcoming work in 2023.</p>				
Proportion of audit files passing inspection by the Chartered Professional Accountants of BC (CPABC)	The OAG is a licensed practicing office with CPABC, subject to periodic inspection by the Public Practice Committee. Performing all audit work in accordance with Canadian Audit Standards is an essential input to ensure the credibility of our work.	100%	n/a	100%
<p><u>Notes:</u> CPABC's first inspection is scheduled for March 2023, after which results will be reported to the AGC.</p>				

Goal 3 – To provide City departments with objective, helpful recommendations.

Key Performance Indicators

KPI	Description	2022 Target	2022 Actual	2023 Target
Proportion of recommendations accepted by audited departments	Recommendations made to audited departments are intended to address opportunities for improvement identified during our work, address underlying issues, be practicable and be cost effective. Acceptance by audited departments is an important short-term outcome on the path to achieving our mission.	100%	n/a	100%
<u>Notes:</u> Measurement for this KPI will begin once our first audit report is released in January 2023.				
Proportion of recommendations endorsed by the AGC	After receiving our audit findings and recommendations as well as management's response to them, AGC's endorsement of audit recommendations is a short-term outcome confirming the need for action.	100%	n/a	100%
<u>Notes:</u> Measurement for this KPI will begin once our first audit report has been presented to AGC in February 2023.				
Proportion of recommendations fully implemented by audited departments within three years	Performance on this mid-term outcome will be determined through the OAG's follow-up process. Some recommendations may take longer than three years to fully implement, and City departments may find alternate approaches to address the root causes.	Fully measured in 2026	Fully measured in 2026	Fully measured in 2026
<u>Notes:</u> Interim measurement for this KPI will begin with the issuance of our first Follow-up Report in December 2023. Full results will be known after the issuance of our December 2026 Follow-up Report.				

Goal 4 – To produce a positive return on investment for Vancouver taxpayers.

Key Performance Indicator

KPI	Description	2022 Target	2022 Actual	2023 Target
Proportion of OAG five-year operational costs matched by positive financial impacts for the City attributable to our recommendations	Many audit recommendations should, if fully implemented, produce positive financial impacts through cost savings, cost avoidance or enhanced revenue. We aim to ensure such savings at least match the office’s cost of operations over a five-year period. This long-term outcome ensures the OAG provides value for Vancouver taxpayers.	Fully measured in 2027	n/a	Fully measured in 2028
<u>Notes:</u> Interim measurement for this KPI will begin in 2023, however, it will not be fully measured until five years after the issuance of our first report.				

Record Retention

In accordance with section 7.10 of the AG By-law, the Auditor General reports that the storage of non-audit records is either fully integrated with the City or, for a small number of documents related to human resource matters, retained in accordance with the City’s record retention policies.

Further, a record retention policy for audit records will be developed as work concludes on the first audit project in early 2023 and in conjunction with the acquisition and installation of an audit software platform.