

THE MUNICIPAL COMPREHENSIVE AUDIT FUNCTION

Theresa Baxter
Faculty of Environmental Design
University of Calgary

Abstract: Many Canadian municipalities have established comprehensive audit systems with diverse structural characteristics. This article examines the comprehensive audit functions in Edmonton, Calgary, and Regina, focusing on their evolution and their strengths and weaknesses. The author proposes a model for a comprehensive audit system that would achieve balance and effectiveness.

Résumé: Plusieurs municipalités canadiennes ont établi des systèmes de vérification compréhensive avec divers caractéristiques structurelles. Ce document discute comment marche-t-elle la vérification compréhensive à Edmonton, à Calgary et à Regina. Le développement, les avantages et les faiblesses des systèmes sont analysés. Un modèle de vérification compréhensive pour les municipalités est proposé qui pourrait être en équilibre et en même temps efficace.

█ In 1978 Edmonton's auditor general stated that municipal governments require a position to provide "an impartial assessment of the performance of its public service" (City of Edmonton, 1978, p. 3). A byproduct of this objective evaluation is increased accountability of city staff to elected officials and potentially of politicians to the public. The latter is a debatable issue among auditors, and its practice usually results in controversy.

Many Canadian municipalities have established comprehensive audit systems with diverse structural characteristics. This article examines the comprehensive audit functions in Edmonton, Calgary, and Regina. It focuses on their evolution and the strengths and weaknesses of the systems. A model for a comprehensive audit system is proposed that would achieve balance and effectiveness.

Audit terms are defined differently both within the audit profession and between jurisdictions. According to the Canadian

Comprehensive Auditing Foundation, comprehensive auditing is an evaluation of “the extent to which financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and accountability relationships are reasonably served” (n.d., p. 8). Edmonton refers to this, or a subset of it, as operational auditing, Calgary as value-for-money auditing, and Regina as comprehensive auditing. The comprehensive auditing function is distinct from that of an external auditor, who audits a city’s financial statements and comments on their accuracy and reliability.

EVOLUTION OF THE AUDIT FUNCTION

Edmonton

Edmonton was the first municipality in Canada to establish the position of auditor general, approved in principle by city council on April 27, 1976. Prior to this, council members were having “difficulties” with existing reporting relationships (City of Edmonton, 1976a, p. 3). They wanted independent advice, “without fear of reprisal,” about whether the administration was carrying out council’s policies (City of Edmonton, 1976b, p. 2). They were seeking a way to review each department and each commissioner (senior executive) in a systematic and impartial manner. At the time, the audit function was internal and reported to city council through the commissioner of finance.

Edmonton’s external auditor assessed the advantages and disadvantages of having an auditor general. He indicated that the difference between an auditor general and an internal audit group related to the concept of “value for money” and the ability to comment on whether money was being spent wisely. He stated that an auditor general was needed to assess program effectiveness, but warned that this would generate conflict between the auditor general and management. Nonetheless, he advised that an independent position was needed to prevent the “screening” of information (City of Edmonton, 1976c, p. 2). An audit committee would be responsible for resolving differences between the auditor general and the administration.

Bylaw 4873 to appoint an auditor general was passed by city council on January 11, 1977 (City of Edmonton, 1977). The bylaw gave the auditor general the mandate to examine the “financial, admin-

istrative, and organizational affairs of the City” (sec. 1) The auditor general was “completely independent of the authority of the Administration,” with a reporting relationship to council and the audit committee as a liaison (sec. 2) Access to information was guaranteed in carrying out the function.

The majority of the Internal Audit Department staff were transferred to the Office of the Auditor General, but an internal audit function continued. Internal Audit Services was maintained in the Finance Department and has increased its staff from two to about eight employees. These are cash auditors who are limited to a specific mandate and report through the administrative structure. Their reports are never made public. Edmonton Telephones, a city Crown corporation, also has its own internal audit function.

Ten years after the creation of the position, Edmonton’s city council commissioned a value-for-money audit of the Auditor General’s Office. The review concluded that the auditor general had been “a positive force for improving the effectiveness and efficiency of City Administration” (Stevenson Kellogg Ernst & Whinney, 1988, p. 10). By 1988 operational audits had been completed on most city departments, boards, and authorities.

One significant area for change revealed by the audit was the need to strengthen the auditor general’s independence from the political level. During the consultant’s investigations, several council members complained that the auditor general revised reports under pressure from elected officials. In addition, the Auditor General’s Office was perceived to be too political, lobbying council members to support or oppose certain undertakings (Stevenson Kellogg Ernst & Whinney, 1988).

The consultants recommended that city council formalize its relationship to the auditor general by establishing an audit committee or delegating the audit responsibility to the utilities and finance committee. They believed that this would “protect the Auditor General from political pressure,” or from having to seek political support “in the absence of a committee with the time to provide it” (Stevenson Kellogg Ernst & Whinney, 1988, p. 16) The executive committee had assumed the role of an audit committee, and the auditor general liaised with it even though its mandate was much broader in scope.

The consultants also expressed concern that the Auditor General's Office develop "more constructive and less confrontational" relations with the administration (Stevenson Kellogg Ernst & Whinney, 1988, p. 2) They stated that the office could reduce existing tension through greater administrative involvement in the operational audit process.

In response to the findings, the auditor general resisted change by minimizing criticisms or asserting that many of the recommendations were already being accomplished (Edmonton Auditor General, 1989a). He argued against the need for an audit committee separate from the executive committee, believing the latter was "the most appropriate Committee to deal with reports of this Office because of the nature of matters reported and the direct line to Council" (Edmonton Auditor General, 1989b, p. 2).

This attitude came back to haunt the Office of the Auditor General in 1991. Relations between the auditor general and city council—in particular, the mayor—deteriorated when the office criticized council's propensity to grant tax exemptions to developers. An amendment to bylaw 4873 was proposed that gave the city manager as much authority as the auditor general to determine whether or not audit reports would be made public or be dealt with *in camera* (City of Edmonton, 1992a).

In July 1992 the new bylaw 10140, incorporating this change, was approved (City of Edmonton, 1992b). This bylaw weakens the independence of the auditor general because it allows the city manager to recommend to the agenda review committee that a report be considered privately despite what the auditor general might think is appropriate. It is too early to evaluate whether the authority given to the city manager is real or symbolic or if the changes will make the audit process secretive. Following the advice of the 1988 value-for-money audit might have prevented this outcome. There was no council committee ready to advocate on behalf of the auditor general, only a competitive management and a few alienated politicians motivated to place controls on the position.

Until recently, the structure and mandate of the comprehensive audit function in Edmonton remained relatively unchanged. In 1991 reports of the Auditor General's Office could be sent to the standing committees or the executive committee, except for the annual report, which is presented to the executive committee. The 1992 auditor general's bylaw made provision for a special audit committee,

which operates as an ad hoc committee focusing on sensitive investigations that are dealt with in private.

By the new bylaw, management is given four weeks to respond to the operational audit findings. Implementation plans are forwarded to the appropriate standing committee and the auditor general. Depending on the significance of the recommendations, updates from the administration may also be required. Annual monitoring programs scrutinize management's progress in implementing council's recommendations. If no action is undertaken, the auditor general advises council in a follow-up report.

A significant change occurred in 1991–92 when the Auditor General's Office began involving the public more in the comprehensive audit process. Prior to that time the work was undertaken internally, but now audit steering committees, comprised of volunteer experts, provide a sounding board for the auditors, who still maintain control over the scoping, findings, and recommendations of the operational audits (City of Edmonton, 1992c). On occasion, focus group sessions have been employed to solicit input from special-interest groups and citizens at large. City staff and elected officials continue to be excluded from participation in the management of the process.

When first introduced, Edmonton's comprehensive audit system was very innovative. At the time, no other Canadian municipality had an auditor general. The ease with which the auditor general's bylaw was changed demonstrates the vulnerability of a position relying on the support of volatile municipal politicians. In addition, the position's gradual politicization and the auditor general's antagonistic relationship with the civic administration may have undermined the office's credibility and effectiveness. The management style of the former auditor general undoubtedly contributed to this outcome. It is unclear whether the current auditor general's approach will foster support rather than conflict. A rebuilding process will definitely have to occur after a history of confrontation.

Calgary

The comprehensive audit function developed quite differently in Calgary than in Edmonton. Calgary's city council studied the possibility of creating an auditor general in the early eighties, but was advised against it. The board of commissioners resisted the idea and

urged council to maintain the existing system and address specific audit concerns through the Management Audit Division, the external auditors, or consultants. The commissioners were very concerned about losing control over the internal audit function, which they believed would be undermined by the presence of an auditor general. They argued that an auditor general was not appropriate to a municipal government and would be costly and time consuming. In their opinion, the position was needed when management problems existed or there was a lack of trust between the administration and the politicians (City of Calgary, 1980).

The finance and budget committee hired consultants to study the issue, who recommended against appointing an auditor general, mostly because it was a new concept at the municipal government level (Coopers & Lybrand, 1980). Three years later a mayor's task force composed of independent specialists and observers also advised against it. Their concerns echoed the administration's about weakening the internal audit function. They also believed that an auditor general would be too costly; that justifying expenditures would lead to an emphasis on the number of recommendations implemented; that it would be essential to maintain political support for the work; and that there was potential for adversarial relationships between the auditor general and management (Mayor's Task Force, 1983).

The two consultants recommended that council concentrate on having an active audit committee involved with the task force work. They studied alternatives as if an auditor general could not co-exist with elected officials participating in the value-for-money audits. Somehow they overlooked the fact that having both was possible and would strengthen the comprehensive audit function (Coopers & Lybrand, 1980).

The consultants proposed the system that was implemented and still exists. The internal audit function, the Management Audit Division, became a department with a primary reporting relationship to the administration and a secondary one to council via the audit committee. It concerns itself mostly with financial, compliance, and operational (management controls) auditing. City council also established a two-person resource group to give advice on audit issues, independent of the administration.

The structure of Calgary's audit system has undergone a few changes over the years. The finance and budget standing policy committee

served as the audit committee until 1985, when a separate committee was established. In the late eighties, citizen members were appointed to the committee. The resource group expanded its function to provide research, analysis, and advice on any policy and operational issues pertinent to decisions taken by city council. In 1989 city council confirmed that the group was entitled to any information necessary to perform its mandate (City of Calgary, 1989). Recently, the resource group was reduced to a single research officer owing to budget constraints.

The audit committee focuses primarily on value-for-money audits. It hires outside consultants for these projects rather than relying on permanent staff. The research officer is responsible for facilitating and monitoring these audits, including advertising and short-listing consultants, reviewing interim reports, and consolidating the final report of the audit findings and management responses (Aldermanic Office Resource Group, 1989).

The expectation was that Management Audit Department staff would learn value-for-money auditing skills, resulting in lessened reliance on consultants. This hope never materialized, although internal auditors work with the consultants on each project. A task force is appointed by city council to conduct the audits. It functions as the project manager, providing direction to the consultants. It is the task force's, and not the consultant's, report that appears before council and becomes a public document. In practice, the consultant's report is usually included in its entirety.

Normally, a task force is made up of a minimum of two council members, a research officer, a commissioner for the area being examined, the director of the management audit department, and one or two expert citizens (volunteers).

Management's response to the audit findings (agreement or objections) is incorporated into the final report. If there is disagreement between the auditors and management, the task force decides which recommendations are forwarded to council. It also presents the final report to the audit committee. At least two follow-up reports prepared by the commissioner are reviewed by the audit committee and council. Monitoring of results is undertaken by the internal audit staff (Calgary Resource Group, 1989).

The mandate of the audit committee expanded in 1988 when a legislative financial planning task force (1988) recommended that in

addition to the budgetary review process, council undertake two yearly program reviews in order to “assess the need for a program, its guiding principles and assumptions and the resources assigned to carry out the goals” (p. 134). The objectives of the program reviews now include a review of council policies and standards of service. Program review committees consist of a minimum of three members of council and one citizen. The research officer coordinates these projects. Senior management of the program under review and Management Audit Department staff act as resources to the committee (Calgary Legislative Resource Group, 1991).

Calgary has not revisited the issue of creating an auditor general since 1983. By other cities’ standards, its system seems antiquated, relying on policy and practice. Its internal audit function is dominated by administrators. To maintain its effectiveness, it relies on an audit committee with a fluid membership, a single research officer, task forces that are effective but lack continuity, limited input from the public, and a small consulting base in Calgary.

Regina

Since the late eighties, Regina has been refining its comprehensive audit function, combining components of Edmonton’s and Calgary’s systems. In 1987 city council endorsed a comprehensive audit program. Under this policy initiative, all city operations were to be reviewed in a five-year cycle, with priorities drawn up by the internal auditors for consideration by the audit committee and the city manager. This program was to be conducted by the internal auditors, outside consultants, or a combination of both (City of Regina, 1987a, 1987b). Subsequently, Regina’s internal audit function achieved a distinct department status but still reported to the city manager.

In 1988 the reporting relationship of the audit function was reassessed. The only alternative discussed was the auditor general system. The city manager advised council that the creation of an auditor general would enhance the independence of the audit function, give it a higher profile within the administration and community, and increase council’s influence on the audit process (City of Regina, 1988a, 1989a). However, he expressed reservations about an autonomous Auditor General’s Office being perceived as “a watch-dog agency, rather than . . . being an integral part of the Administration that performs a supportive review function” (City of Regina, 1989a, p. 2) He recommended that the Internal Audit Department

continue to report to the city manager and that council approve a bylaw ensuring that the department's reports were sent "unedited" to the audit committee (p. 3).

Despite this advice, city council approved the creation of an independent audit function. Bylaw 8926 to appoint an auditor general was passed on October 19, 1989 (City of Regina, 1989b). The bylaw incorporates many elements of Edmonton's original bylaw. The auditor general is "responsible and answerable only to Council" and reports through the audit committee and the executive committee (sec. 8.1). Access to information is guaranteed for any reports or documents needed to perform the duties of the office. The Internal Audit Department was transferred to the Office of the Auditor General, and no other internal audit function was maintained.

From their initiation, Regina's comprehensive audits utilized steering committees, which are advisory groups with some influence but no control over the process. They make suggestions to the auditors, who are not obligated to follow their advice. On rare occasions, steering committees have written minority reports to Council on audit findings and recommendations. Their membership has evolved over time to include one city councillor from the standing committee responsible for the audited program or department; one city councillor from the audit committee (optional); one person representing each union with membership within the audited program/department; one expert citizen (volunteer); one program/department employee, randomly selected; the director; the city manager (*ex officio*); and the city auditor general, acting as the committee's secretary (City of Regina, n.d.).

According to the bylaw, the city manager's comments on the comprehensive audit are incorporated into the final report. Departments submit implementation plans to the relevant standing committee for approval and to the audit committee for information purposes. Occasionally, updates from the administration are submitted to the audit committee for approval and to the standing committee for information. There is no formal monitoring process undertaken by the Auditor General's Office.

Even before the appointment of an auditor general, Regina had reduced its reliance on outside consultants. The original intention was to use consultants to "add credibility to a sensitive program, provide expert technical advice to our internal auditors and perform

audits on programs that were of a high technical and complex nature” (City of Regina, 1988b, p. 8). Part of the consultants’ responsibilities was to train staff auditors in comprehensive auditing techniques. As well, there was a perception that the objectivity of the process would be protected (City of Regina, 1987b, p. 2; 1988b, p. 9).

By 1990 the practice of hiring consultants as project leaders had been discontinued, although consultants were used for specialized work (City of Regina, 1990). The results of consultants’ first comprehensive audits showed disappointing cost savings (City of Regina, 1988b). In addition, Regina has a small consultant base to undertake the work, so only a few firms were used. Hence a decision was made to have these audits carried out by the Auditor General’s Office.

Regina’s audit system is relatively new and combines some aspects of Edmonton’s and Calgary’s systems. It has a bylawed auditor general and uses advisory committees with political, management, and employee representation for its comprehensive audits. No evaluation of the system has been undertaken, although a peer review is scheduled for 1993–1994. The auditor general’s bylaw (City of Regina, 1989b) requires an audit of the office every five years.

STRENGTHS AND WEAKNESSES

The comprehensive audit approaches discussed above have their relative strengths and weaknesses, summarized in Table 1. By traditional performance standards, the three systems have achieved some success: city staff have become more publicly accountable; cost savings have been substantial; civic operations are running in a more economic, efficient, and cost-effective manner. However, each system has its limitations in terms of achieving the most effective municipal comprehensive audit system.

Status and Reporting Relationships

The status of the audit function and the nature of the reporting relationships affect the credibility of the comprehensive audit system. Having legal rather than policy status is preferable because it guarantees greater auditor independence and therefore objectivity. Edmonton and Regina give bylaw status to the auditor general’s role, mandate, reporting relationships, and right to information. However, as Edmonton’s experience proved, bylaws can be amended eas-

ily when politicians decide to put controls on the function or limit its independence.

Calgary has a weaker system because it does not have an auditor general. Its audit system relies on council policy and does not even have bylaw stature. As a result, that system is more susceptible to pressure from management and overly dependent on supportive members of council, who change from election to election and, moreover, may lack sufficient knowledge of the function to appreciate its worth.

To facilitate and enhance accountability, reporting relationships should be streamlined. None of the cities has achieved this: in each, reporting relationships lack concentration and are fragmented. One of the greatest assets of Calgary's system is the pivotal position played by the audit committee, but this is subject to the whims of politicians, who can overpoliticize the process or fail to understand it. The city also maintains an internal audit function that reports to the administration, thus undermining its own integrity.

Regina's audit function has reporting relationships to the audit committee, the standing committees, and, in exceptional circumstances, to the executive committee. Edmonton's Auditor General's Office has a primary reporting relationship to the executive committee, where auditors do not make presentations but simply answer questions. It also relates to the agenda review committee, the standing committees, and occasionally to a special audit committee. Consequently, all of the cities have diffuse reporting relationships.

Objectivity

The objectivity of the comprehensive audit function is crucial to its effectiveness. Indeed, the audit function is only as strong as its objectivity. Two different approaches have been used to achieve objectivity: protecting the independence of the audit function and encouraging the participation of a balance of interests. In theory, combining these approaches should provide a greater degree of objectivity and a broader safeguard than either on its own.

Auditors have to be free to comment without fear of negative repercussions or interference from either elected officials or administrators. Ideally, they should be objective and unbiased in their observations and findings. In reality, complete impartiality is

Table 1
Strengths and Weaknesses of Three Audit Systems

	Edmonton		Calgary		Regina	
Issue Status	Strengths	Weaknesses	Strengths	Weaknesses	Strengths	Weaknesses
Reporting Relationships	<ul style="list-style-type: none"> auditor general 	<ul style="list-style-type: none"> by bylaw 	<ul style="list-style-type: none"> active audit committee 	<ul style="list-style-type: none"> no auditor general system relies on council policy 	<ul style="list-style-type: none"> auditor general auditor general 	<ul style="list-style-type: none"> by bylaw
Objectivity						
I. Independence	<ul style="list-style-type: none"> auditor general 	<ul style="list-style-type: none"> relates to special audit committee, agenda review committee, standing committees, and executive committees 	<ul style="list-style-type: none"> uses external consultants research officer 	<ul style="list-style-type: none"> size internal audit function, primarily reporting to commissioner no auditor general 	<ul style="list-style-type: none"> uses external consultants for specialized work 	<ul style="list-style-type: none"> reports to audit committee, standing committees, and executive committee
II. Balance of Interests	<ul style="list-style-type: none"> uses steering committees uses focus groups 	<ul style="list-style-type: none"> no bylaw guarantee of independence in practice, alienates politicians when held publicly accountable city manager and chair of standing committee have a voice in deciding if reports are private or public 	<ul style="list-style-type: none"> uses task forces 	<ul style="list-style-type: none"> excludes labor 	<ul style="list-style-type: none"> uses steering committees 	<ul style="list-style-type: none"> advisory large size made up of vested interests

**Table 1
Strengths and Weaknesses of Three Audit Systems (continued)**

	Edmonton	Calgary	Regina
Issue Public Disclosure	<p>Strengths</p> <ul style="list-style-type: none"> disclosure except legal matters, negotiations, civic contracts, and personnel issues <p>Weaknesses</p> <ul style="list-style-type: none"> by law city manager and chair of standing committee can request in camera reporting no confidentiality controls on politicians 	<p>Strengths</p> <ul style="list-style-type: none"> full disclosure, except security, personnel, and legal issues <p>Weaknesses</p> <ul style="list-style-type: none"> policy no confidentiality controls on politicians 	<p>Strengths</p> <ul style="list-style-type: none"> full disclosure except when auditor general declines <p>Weaknesses</p> <ul style="list-style-type: none"> practice no confidentiality controls on politicians
Auditor-Staff Interactions	<ul style="list-style-type: none"> excludes city staff 	<ul style="list-style-type: none"> uses task forces excludes labor 	<ul style="list-style-type: none"> advisory
Implementation	<ul style="list-style-type: none"> plan sent to standing committee and auditor general sole responsibility of auditor general standing committees do not play active monitoring role auditor general reports to committees only when action not taken Auditor General's Office relies on annual report for monitoring 	<ul style="list-style-type: none"> audit committee or task force responsible 3 reports required reports policy requirement, in practice many more produced internal audit monitors no independent verification of results no auditor general 	<ul style="list-style-type: none"> uses steering committees plans sent to standing committee for approval and audit committee for information updates by administration auditor general adopts informal monitoring role re-audits used as follow-up

difficult to achieve in the highly politicized atmosphere of a municipal government. Most auditors perceive the politicians to be their superiors. In addition, opinions are generally value laden.

Independence

Protecting the independence of auditors is one way of attempting to ensure greater objectivity. With varying degrees of success, the cities have used two mechanisms to achieve an independent audit function: guaranteeing it by bylaw, and using external consultants and independent advisers.

Regina has the strongest system, with a bylaw that technically guarantees the auditor general's independence from the influence of politicians and administrators. No one is allowed to interfere with the auditor general's reports. But bylaws can be changed with relative ease. Edmonton's auditor general had originally been extended the same independence, but when its incumbent had the courage to hold the political body publicly accountable for inappropriate tax concessions, he created powerful enemies.

In similar circumstances in Calgary, a program review committee criticized some council members for interfering with the development permit process and recommended ethical guidelines be established for members (Development Permit Review Committee, 1991). The findings were controversial but no retaliatory measures resulted, possibly because political colleagues were members of the committee.

Auditors often question their role in ensuring political accountability because they do not work in a structure that facilitates or encourages it. They do not perceive themselves to be independent of their political bosses. Issues may arise that auditors are professionally bound to investigate and comment on. Most often they will seek to avoid rather than confront situations where sensitive political, ethical, and quasi-legal issues may be anticipated. This ultimately weakens the audit function.

Calgary's audit system is the weakest with regard to the independence of its auditors. The city maintains an internal audit function, which has a primary reporting relationship to the commissioner of finance and administration and a secondary one to the audit committee. The audit committee has never had either the time or the

inclination to become involved in the ongoing operations of the department and satisfies itself with occasional reports on its operations. As a result, the Management Audit Department is an internal city department dominated by the administration and vulnerable to criticism about its objectivity.

External consultants have been used by Calgary and Regina to achieve some independence and enhance the credibility of audit findings. From the public's point of view, consultants are perceived to be independent outsiders, and therefore the most objective auditors. The disadvantage of using consultants is the small market in the three cities for comprehensive auditors: choices are limited. Some consultants are also not familiar with civic operations and have to learn from staff, which can cause resentment during a review and raise questions about their expertise. The strongest system is Regina's, where the Auditor General's Office has comprehensive auditing expertise augmented by consultants.

Calgary's audit system has another independent dimension, the research officer. This individual is removed from both the internal auditors and the administration. The research officer's primary role is to provide assistance and support to council, but he or she can also be called on to address the sensitivities that arise between different political interests. The research officer provides a significant interface at the political level between auditors, consultants, public interests, and auditees. In addition, he or she explains the process to staff and alleviates some of the inherent tension in that process, which an auditor general might not be able to do. Finally, the research officer provides the continuity that the politicians and task forces lack. The weakness of this function is its severely restricted size.

Balance of Interests

Another way to achieve objectivity in the comprehensive audit function is to ensure the involvement of a balance of interests in the process. The three cities have encouraged the participation of different stakeholders, but none has achieved notable success.

On its task forces Calgary includes politicians, administrators, citizens, and experts but excludes labor. Regina's steering committees are unwieldy in size and comprised of too many vested interests, of people who are being audited. The inclusion of union staff, one

randomly chosen employee, the director, and the city manager (*ex officio*) creates an imbalance among the stakeholders. This undermines the objectivity of the committees. However, it is not as problematic as it could be, because the committees play an advisory role and do not have the same responsibility and authority over the audit project as Calgary's task forces. Thus, in Regina the responsibility to maintain objectivity lies with the auditor general, unlike in Calgary, where it lies with the audit task forces.

Edmonton's use of focus groups to solicit public input enhances the credibility of the audit scope, ensuring the right issues will be addressed. However, its advisory steering committees include volunteer experts and exclude city staff and politicians to the detriment of the process. Representatives from management and labor should be included, if only in a resource capacity. The participation of politicians helps to educate them and gives them a greater understanding of civic operations, of audit results, and of the rationale behind audit recommendations.

Hence, of the two approaches to achieving objectivity of the comprehensive audit function—preserving independence and involving a balance of interests.—neither has been entirely successful.

Public Disclosure

There is a tension between the public's right to know and the need for confidentiality in the audit field. Confidentiality should not be confused with secrecy, as full public disclosure is essential to the comprehensive audit function. Yet occasionally exposure is not in the best interests of the municipality. Another aspect of the confidentiality issue is the requirement to build trust during the audit process and avoid the premature release of audit findings. The presence of politicians and their constant interaction with the news media make this a much more difficult problem to address. None of the cities has resolved these issues satisfactorily.

In Edmonton, the auditor general bylaw (1992b) gives discretionary power to the auditor general, the city manager, and the chair of a standing committee to request of the agenda review committee that a report be discussed in camera. The bylaw also identifies reports on legal matters, negotiations, civic contracts, and personnel issues as requiring private consideration. In Calgary, the audit committee has a policy that all reports are dealt with in public except for those

involving security, personnel, or legal matters (City of Calgary, 1993). In Regina, no bylaw or policy guidelines exist, but the practice has been public disclosure except when determined by the auditor general, usually in consultation with the Law Department.

None of the cities has developed an ideal approach. It is in the public interest to ensure that the comprehensive audit process is as open as possible. It is too important an issue to leave to policy, as in Calgary, or common practice, as in Regina. A legal commitment to full public disclosure is preferable. Criteria for exceptions, which should be few, need to be identified. The decision about public versus confidential reports would then be an easy one to make. It should be determined by the auditor general without interference from elected officials or the administration. Edmonton undermined its pledge to public disclosure by allowing a number of people to have a voice in deciding the issue.

None of the cities has addressed the responsibility of politicians not to divulge confidential information. Auditors are subject to professional reprisal, but politicians are not. Legal controls could be placed on elected officials by incorporating the principle of confidentiality into a code of conduct bylaw, ethical guidelines, or other relevant legislation. Ultimately, though, the system has to rely on the integrity of the politicians involved and the hope that they appreciate the process enough not to compromise it.

Auditor and Staff Interactions

Conflict between auditors and the civic administration is inherent in the comprehensive audit process. Some tension is healthy, as it acts as a surrogate for competition, which is lacking in the public sector. In addition, auditors are supposed to critically evaluate city operations. However, excluding management and employees from the process can generate apprehension. Involvement and understanding may not lead to agreement, but will lessen the fear of the unknown. The participation of city staff need not weaken audit independence or contaminate the results. It may even strengthen staff's commitment to the process and to the implementation of suggested changes.

Calgary has adopted a task force approach in its comprehensive audits that involves management but not labor in a consensus-building process from the initial planning phases to the recommendation

phases. Management is also an integral part of the implementation phase. In Regina advisory groups involving management and employees are used. This seems to have alleviated some of the antagonism and minimized the confrontation between city staff and auditors that is more pronounced in Edmonton's experience. Edmonton excludes management and labor in even an advisory capacity from management of the process. This fosters more distrust of the process than occurs in the other two cities.

Implementation

One of the most important elements of the comprehensive audit process is the implementation phase, which ensures recommendations are accepted and improvements occur. Successful outcomes are ensured if this process involves clearly defined responsibilities and reporting relationships, as well as established timelines. Action plans for implementation should be the responsibility of management, with the auditors undertaking the monitoring function together with the politicians. Elected officials need to be involved because this provides the political support necessary to ensure staff is achieving positive changes, as well as enhancing accountability.

In Edmonton implementation plans prepared by the administration are sent to the appropriate standing committee and to the auditor general. Updates by management occur occasionally if the recommendations entail significant change. The auditor general has been criticized for emphasizing deficiencies and minimizing positive change. This tendency has probably been accentuated by the fact that detailed reports to the standing committees occur only when there is no progress being made in implementation. Edmonton's standing committees do not play a proactive monitoring role, which is the sole responsibility of the auditor general. Follow-up reports from the auditor general on the number and percentage of recommendations implemented are usually recorded only in the annual report.

In Regina management's implementation plans are forwarded to the appropriate standing committee for approval and to the audit committee for information only. Additional updates by the administration are rare, and they are sent to the audit committee for approval and the standing committee for information. The Auditor General's Office adopts an informal monitoring role and intends to use reaudits as its approach to follow-up.

Calgary has the strongest implementation process. Generally, the audit committee is responsible for monitoring implementation, but has occasionally, in more complicated audits, delegated this to task forces. Three reports are supposed to go to the audit committee within a specified time after council's approval of the audit recommendations: six months to one year later, the commissioner for the audited area reports on the improvements achieved to date; one to one and a half years later, the Management Audit Department writes a follow-up on the issues and actions taken; and one and a half to two years after, the commissioner prepares a final report on the recommendations implemented, completion dates for those outstanding, and the cost savings achieved (Aldermanic Office Resource Group, 1989). This is the approved policy but, in practice, many follow-up reports occur in addition to those required, making implementation a very long and time-consuming process.

Calgary's emphasis on the implementation phase is undermined by having the internal auditors undertake one of the follow-up reports, so that there is never an independent verification that all recommendations are implemented. This weakness could be remedied by the presence of an auditor general. Edmonton and Regina do not stress implementation, and monitoring is either annually or informally done. The fragmented reporting relationships also weaken accountability and implementation in the latter two cities. While Calgary's is the strongest approach, all three cities need to improve their means of verifying implementation.

A MODEL COMPREHENSIVE AUDIT SYSTEM

Combining elements of the audit approaches in the three cities and making additional improvements to all three should produce the most effective comprehensive audit system. Combining the strengths of the three systems and addressing the weaknesses common to all three would be ideal. Every large municipality should have an independent auditor general. An internal audit function reporting to the administration cannot achieve the desired degree of objectivity. To be truly independent of city council and safe in holding politicians accountable, the municipal auditor general should be provincially legislated. The auditor general's role, mandate, reporting relationships, and guaranteed access to information should be given legal status.

In order to respect the public's right to know, the legislation should include a commitment to full public disclosure and should identify the exceptions. The auditor general should have the final decision-making power over the public or private nature of reports. The principle of confidentiality during the audit process should be incorporated into council members' code of conduct bylaw, ethical guidelines, or relevant legislation.

Reporting relationships and accountability responsibilities should be direct and clear. The reporting relationship should be through one committee, an audit committee, to city council. The audit committee and ultimately council should accept some responsibility for establishing priority areas for review, scheduling, and monitoring implementation. The audit committee should also function as a conflict resolution body.

Having an audit committee reduces the need for an auditor general to seek political support because that support is implicitly given by committee members who are committed to the audit function. The committee provides a sounding board for the auditor general while offering protection from the perception of political interference. In addition, it ensures that elected officials have greater awareness of the audit function and facilitates their "buy-in" to the process. The presence of an auditor general would overcome some of an audit committee's weaknesses, such as lack of continuity and excessive politicization of the audit function.

Outside consultants should be used occasionally to provide the necessary expertise in specialized areas and increase the credibility of audit findings. Including the general public in focus group sessions and advisory committees facilitates valuable input. It is also important to have management and labor participate to alleviate tension and strengthen their commitment to the process and to implementation. Advisory groups should have a balance of stakeholders represented. Using advisory groups to augment the work of the task force, which should be limited in size, would enhance the plausibility and profile of the process.

Task forces should function as project managers because they allow council members to own the process. From the initial scoping phase, politicians gain insight into why issues are raised, why recommendations are being made, and why staff is agreeing or objecting. Task forces also give auditors an opportunity for political input, particu-

larly at the planning and recommendations phases. The task force can comment on political problems and can make it easier to gain council approval of the audit findings and recommendations. Because politicians are interested in policy decisions, a task force usually blends policy and audit issues, with resultant policy changes accomplishing more fundamental innovations than typical audit improvements.

The dichotomy between an auditor general and task forces relates to accountability and public policy. If the mandate of an auditor general is legislated, a task force cannot supersede it on audit matters. An auditor general's role would be protected, and its incumbent would certify the task force's audit results. The Auditor General's Office would undertake the audit, augmented by consultants if needed. However, the auditor general would not have any control over the broad policy perspective adopted by a task force. The task force could potentially serve as a vehicle for municipal policy reform. Accountability and public policy would be enhanced. At the same time, the task force would accommodate a balance of interests in the process, with representation from elected officials, management, labor, and the public.

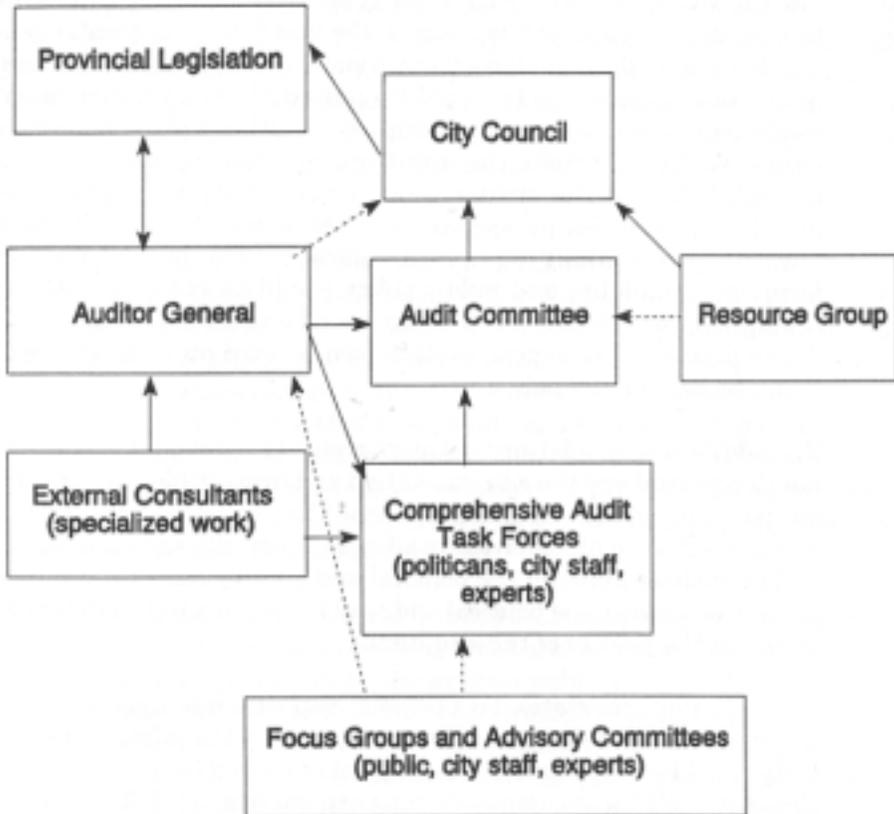
The addition of an advisory resource group, independent of both the auditor general and the administration and responsible only to council, provides additional independence. The resource group is in a better position to diplomatically address politically sensitive issues and to mediate between the political and auditor/consultant levels, as well as between the political and staff levels. In a sense, the group manages the politics of the situation.

Effective implementation is essential and depends upon a strong action plan with definite timelines prepared by the administration. Only one follow-up report by management should be needed, at the time when all the recommendations are implemented. This should be sent to the audit committee. The auditor general could then verify its accuracy in a report to the audit committee.

The most effective municipal comprehensive audit system would accommodate many checks and balances. These include an auditor general mandated by provincial legislation, task forces, outside consultants, independent advisers, management, employee and citizen involvement, a commitment to full public disclosure, strong implementation, and a supportive audit committee. The structure of

such a system is outlined in Figure 1. Combining these elements would protect the status and objectivity of the audit function; ensure that city staff are accountable to elected officials and politicians to the public; streamline reporting relationships; minimize

Figure 1
A Model Comprehensive Audit System



LEGEND

..... Advisory Relationship
 — Formal Reporting Relationship

tension between staff and auditors; ensure implementation; and facilitate an open process. In order to guarantee the system's ongoing effectiveness, an independent evaluation of it, responsible to the provincial authority, should be undertaken every five years.

CONCLUSION

This article examines the evolution of the audit systems in Edmonton, Calgary, and Regina. Edmonton has an auditor general who worked predominantly in isolation until recently, when the public began to participate in an advisory capacity in its operational audits, although council members and city staff are excluded. Calgary's system is policy based and relies on a fluid audit committee, an internal audit department, and an independent advisory research officer. Its value-for-money audits are managed by task forces and conducted by outside consultants, with political, citizen, and management participation but no labor representation. Regina combines both an auditor general and comprehensive audits with management, employees, citizens, and elected officials as advisers.

The systems outlined are probably very successful by traditional audit standards. However, they have relative strengths and weaknesses with regard to the protection of objectivity, the clarity of accountability and reporting relationships, public disclosure procedures, and constructive auditor and staff interaction. They also have common weaknesses: a lack of a provincially legislated auditor general, fragmented reporting relationships, poor verification of implementation, and an inability to allow auditors to hold municipal politicians accountable.

An ideal audit system would combine a provincially legislated auditor general position to ensure the accountability of city staff to elected officials and, in particular, of politicians to the public; a commitment to full public disclosure; task forces to emphasize the public policy perspective; the use of outside consultants and independent advisers to add credibility and independence to the process; staff and citizen involvement to create a balance of interests; and an active audit committee to give political support and address policy issues. This approach would achieve a system of checks and balances.

The three cities, together with seven other civic and regional governments, are members of the Canadian Municipal Comprehensive Auditors Association. This is an organization that addresses many

of the issues discussed in this article. Currently, the CMCAA is developing peer reviews guidelines. Hopefully, this article will assist the association in the process.

ACKNOWLEDGEMENT

The author is grateful to the auditors in the cities of Calgary, Edmonton, and Regina, who provided information, comments, and advice on this article.

REFERENCES

- Aldermanic Office Resource Group. (1989). *Value-for-money audit procedures*. Calgary: Author.
- Calgary Legislative Resource Group. (1991). *Program review procedures guidelines*. Calgary: Author.
- Calgary Resource Group. (1989). *Reference guide to the City of Calgary's audit committee*. Calgary: Author.
- Canadian Comprehensive Auditing Foundation. (n.d.). *Comprehensive auditing: Concepts, components and characteristics*. Ottawa: Author.
- City of Calgary. (1980, February 10). *AC 80-5: Commissioners' report to audit committee, re: auditor general*. Calgary: Author.
- City of Calgary. (1989). *AC 89-15: Resource group access to information*. Calgary: Author.
- City of Calgary. (1993, November 22). *Audit committee terms of reference (rev.)*. Calgary: Author.
- City of Edmonton. (1976a, June 1). *Minutes of audit and economic affairs committee*.
- City of Edmonton (1976b, June 8). *Minutes of audit and economic affairs committee*. Attachment 1: Memorandum to secretary, audit committee, from C.J. McMonagle, City Clerk, dated April 28, 1976.
- City of Edmonton (1976c, July 29). *Minutes of audit and economic affairs committee*.

- City of Edmonton. (1977, January 11). *Bylaw No. 4873, A bylaw to appoint a city auditor general for the City of Edmonton.*
- City of Edmonton. (1978). *Annual report of the auditor general.* Edmonton: Office of the Auditor General.
- City of Edmonton. (1992a, April 14). *Bylaw No. 9779, A bylaw to amend the auditor general bylaw no. 4873*
- City of Edmonton. (1992b, July 28). *Bylaw No. 10141, The auditor general bylaw.*
- City of Edmonton. (1992c). *Fifteenth annual report.* Edmonton: Office of the Auditor General.
- City of Regina. (n.d.). *City auditor general's office policy and procedures manual.* Regina: Author.
- City of Regina. (1987a, February 16). *Council minutes.*
- City of Regina. (1987b, April 13). *CR-134: Comprehensive audit program.* Regina: Author.
- City of Regina. (1988a, December 8). *A-22: Organizational reporting of the audit function.* Regina: Author.
- City of Regina. (1988b, December 8). *A-23: Use of outside consultants for comprehensive audits.* Regina: Author.
- City of Regina. (1989a, June 1). *AC-7: Organizational reporting of the audit function.* Regina: Author.
- City of Regina. (1989b, October 19). *Bylaw 8926: A bylaw of the City of Regina to appoint a city auditor general.* Regina: Author.
- City of Regina. (1990). *Annual report.* Regina: Office of the Auditor General.
- Coopers & Lybrand. (1980). *Report to audit committee regarding management audit division of the City of Calgary.* Calgary: Author.
- Development Permit Review Committee. (1991, November). Calgary: Author.

Edmonton Auditor General. (1989a, January 10). *Responses to Stevenson Kellogg Ernst & Whinney's report*. Edmonton: Author.

Edmonton Auditor General. (1989b, February 1). *Report to Executive Committee meeting*. Edmonton: Author.

Financial Planning Task Force. (1988, October 20). *Financial alternatives: Charting the future* (prepared for Calgary City Council). Calgary: Author.

Mayor's Task Force on the Audit Committee. (1983). *Report*. Calgary: Author.

Stevenson Kellogg Ernst & Whinney. (1988, December 7). *Value for money audit of the office of city auditor general*. Edmonton: Author.