COMMUNICATIONS

Distributed May 16, 2011		Item No.
C1	Commissioner of Finance/City Treasurer, Presentation Material, dated May 16, 2011	2
C2	Submitted by Regional Councillor Rosati, "The Institute of Internal Auditors Information	5

Please note there may be further Communications.

C1

VAUGHAN

2011 Proposed Water and Wastewater Operating Budget

Finance & Administration Committee

May 16th, 2011

Vaughan Vision 20|20

LOOKING TO OUR FUTURE

Water for Tomorrow

VAUGHAN

Agenda

- Water and Wastewater Fast Facts
- Budget Highlights
- Budget Overview
- Region of York – Water and Wastewater Rate Increases
- Water and Wastewater Rate Increase Breakdown
- 2011 Municipal Comparison

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Water and Wastewater Fast Facts

- ✓ The City owns and operates two distribution systems: Vaughan Water Distribution System and Kleinburg Water Distribution System.
- ✓ The City of Vaughan provides services to 74,000 Residential homes and 2,950 Institutional, Commercial and Industrial (ICI) customers.
- ✓ Residential customers are invoiced bi-monthly and ICI customers are billed monthly by the City's billing agent PowerStream.
- ✓ In 2010 the Vaughan and Kleinburg systems distributed 36,000,000 m^3 of water.
- ✓ The City of Vaughan is responsible for the maintenance and repair of:
  - ➢ 858 kilometers of water mains
  - ➢ 839 kilometers of sanitary sewer mains
  - ➢ 820 kilometers storm sewers mains
- ✓ Revenue generated from Water and Wastewater billing was in excess of $76M in 2010.

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Water and Wastewater Fast Facts - continued

- ✓ Vaughan purchases its drinking water from the Region of York, who purchases it from the City of Toronto and from the Region of Peel.
- ✓ Water comes from Lake Ontario and through City of Toronto water treatment facilities it is purified for domestic consumption – “Potable Water”.
- ✓ Average household water consumption has decreased from 338 m^3 in 2007 to 295 m^3 in 2010 attributable to conservation efforts and weather patterns.
- ✓ Water and Wastewater billing revenues fund water purchases, wastewater services, asset rehabilitation/renewal, administration, overhead, financing, other operating costs and most importantly infrastructure lifecycle funding.

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Budget Highlights

- ✓ The combined water / wastewater proposed rate increase is 9.94%.
- ✓ Region of York increasing both their water and wastewater rates by 10%.
- ✓ The residential impact on an average household consumption of 300 m^3 of water per year is an additional $65.31 or $5.44 per month.
- ✓ Vaughan is continuing to move towards Full Cost Recovery – 2009 Watson Rate Study Report.
- ✓ Water and Wastewater effective rate increase - July 1, 2011.
- ✓ The Water and Wastewater budget is prepared through a collaborative partnership between Public Works and Financial Services.
- ✓ Vaughan's residential account growth of 3.0% and ICI growth of 1.75% will generate 36,500,000 m^3 of water consumption.

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Budget Overview - Water

	Proposed 2011 Budget	2010 Budget	Change	
Water Revenues	$40.8M	$36.6M	11.5%	Growth / Rate Increase
Water Purchases	28.7	25.3	13.4	Region of York 10% rate increase / growth
Gross Margin	12.1	11.3	7.1	
Other Revenues	1.3	1.2	8.3	
Maintenance	5.5	5.2	5.8	2011 ARRs
Administration, Financing and Overhead	3.9	4.1	(4.9)	Renegotiated Joint Services Agreement
Lifecycle Contribution	$4.0M	$3.2M	25.0%	

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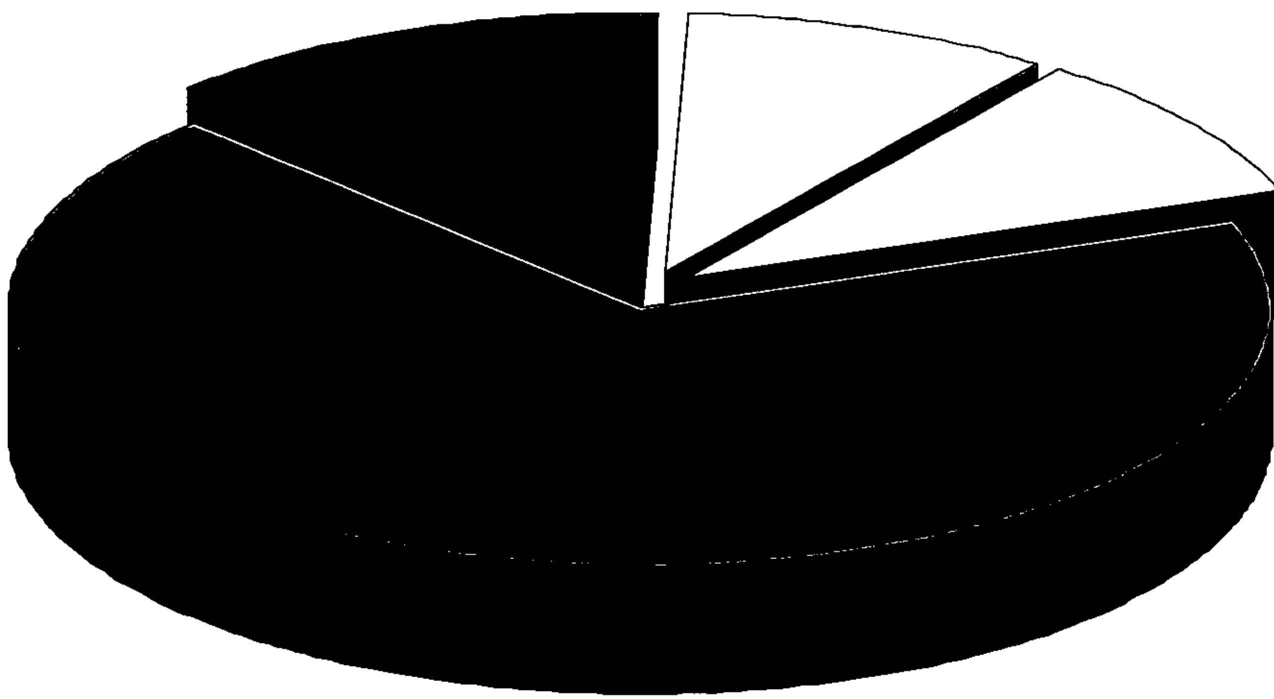
2011 Water Expenses



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Budget Overview - Wastewater

	Proposed 2011 Budget	2010 Budget	Change	
Wastewater Revenues	$42.6M	$38.3M	11.2%	Growth / Rate Increase
Wastewater Expenses	31.6	28.1	12.5	Region of York 10% rate increase / growth
Gross Margin	11.0	10.2	7.8	
Other Revenues	0.7	0.6	16.7	
Maintenance	5.8	5.3	9.4	2011 ARRs
Administration, Financing and Overhead	2.2	2.2	0.0	
Lifecycle Contribution	$3.7M	$3.3M	12.1%	

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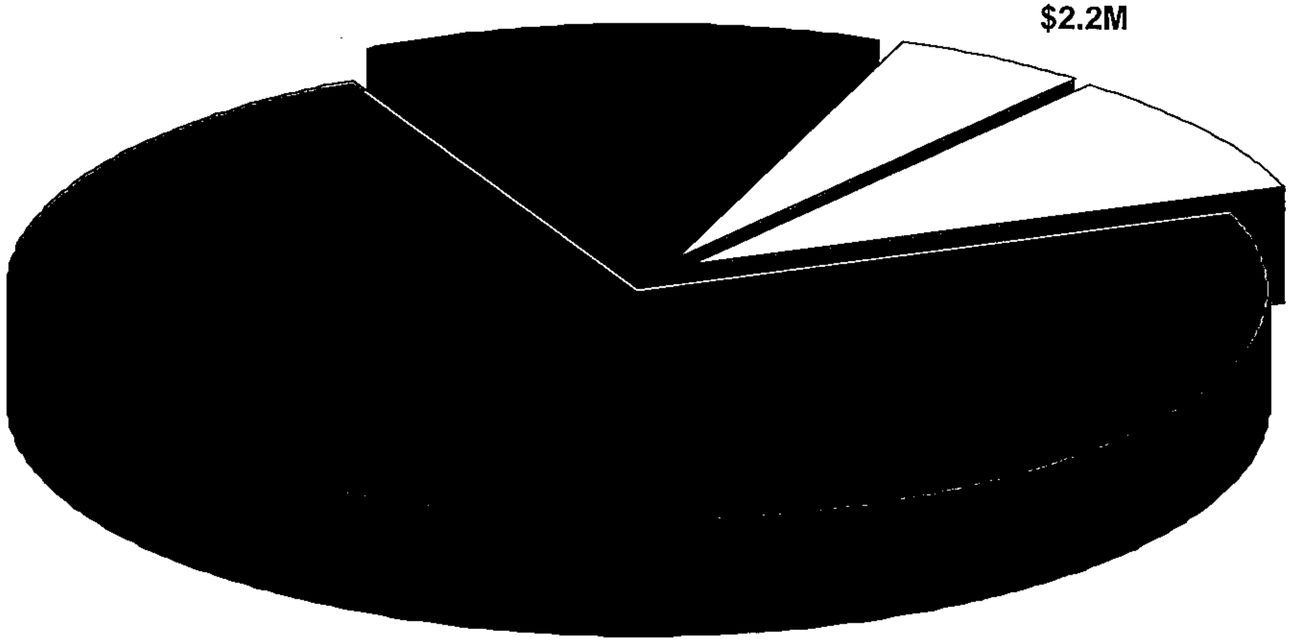
2011 Wastewater Expenses



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Region of York Water and Wastewater Rate Increases

- ✓ York Regional Council approved a water rate study that included increases as follows:
  - a 10% annual increase in water rates for 2009 – 2011, 5% annual increase in 2012 and 2013 and 2% annual increase thereafter,
  - a 10% annual increase in wastewater rates for 2009 – 2013 and a 5% annual increase thereafter.

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Breakdown of the Combined Water and Wastewater Rate Increase

Potable Water and Wastewater Purchased Services	6.17%	Region of York
Unmetered Water	0.43%	
Maintenance	0.89%	
Admin., JSA, Financing and Overheads	(0.48)%	
Infrastructure Contribution	2.93%	Reserves
2011 Increase	9.94%	

Proportionate Share of Rate Increase	Water	Wastewater	Combined
Region	64%	61%	62%
City	36%	39%	38%

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Breakdown of the Water / Wastewater Rate Components and Cost Impacts

Rate Components	Water	Wastewater	Combined
Regional Purchased Services	$0.6973	$0.7900	$1.4873
Unmetered Water	0.1022	n/a	0.1022
Maintenance	0.1225	0.1486	0.2711
Other	0.1063	0.0609	0.1672
Lifecycle Contribution-Reserve	0.1343	0.2463	0.3806
TOTAL	$1.1626	$1.2458	$2.4084

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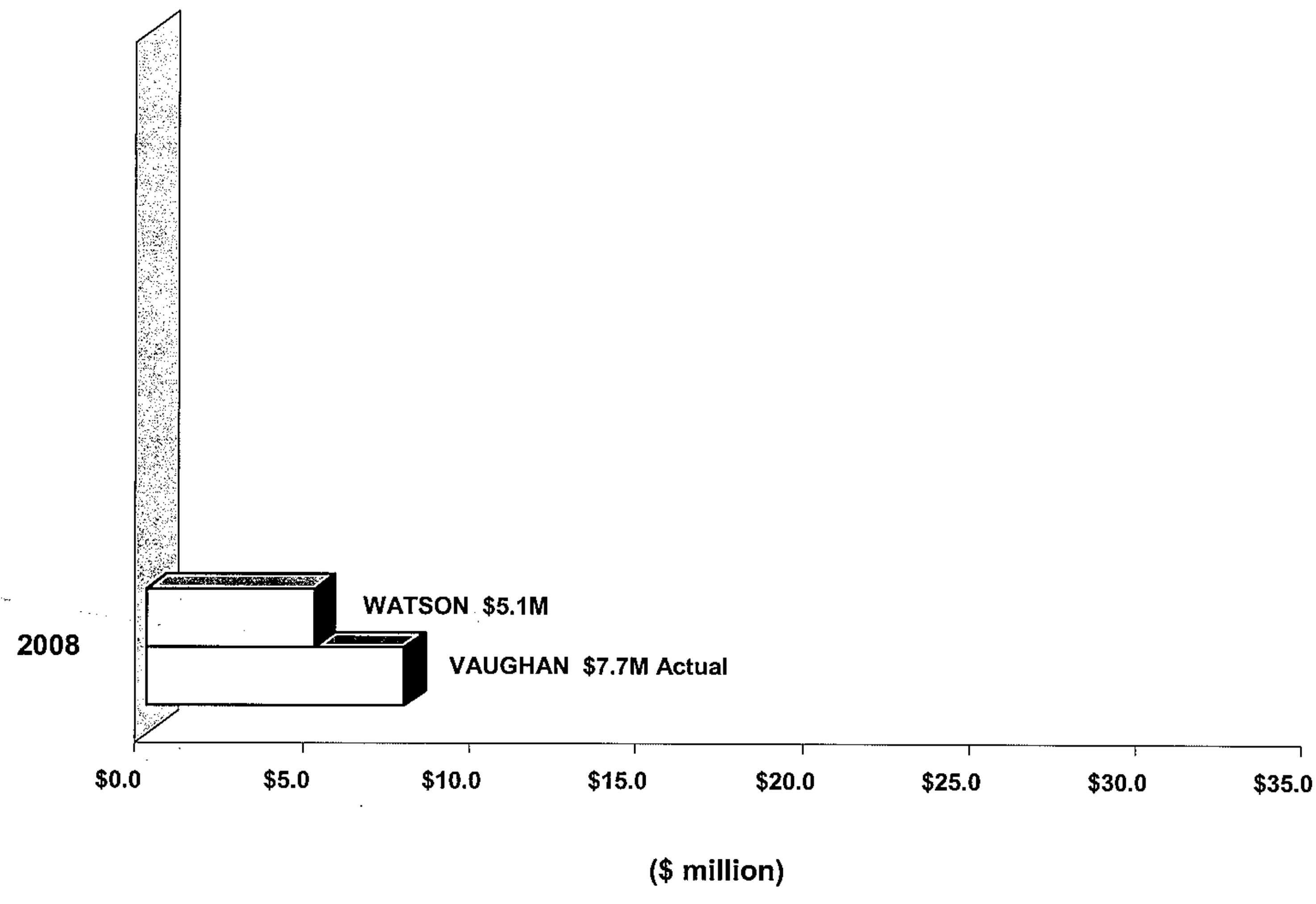
Cumulative Water / Wastewater Lifecycle Contribution Comparison



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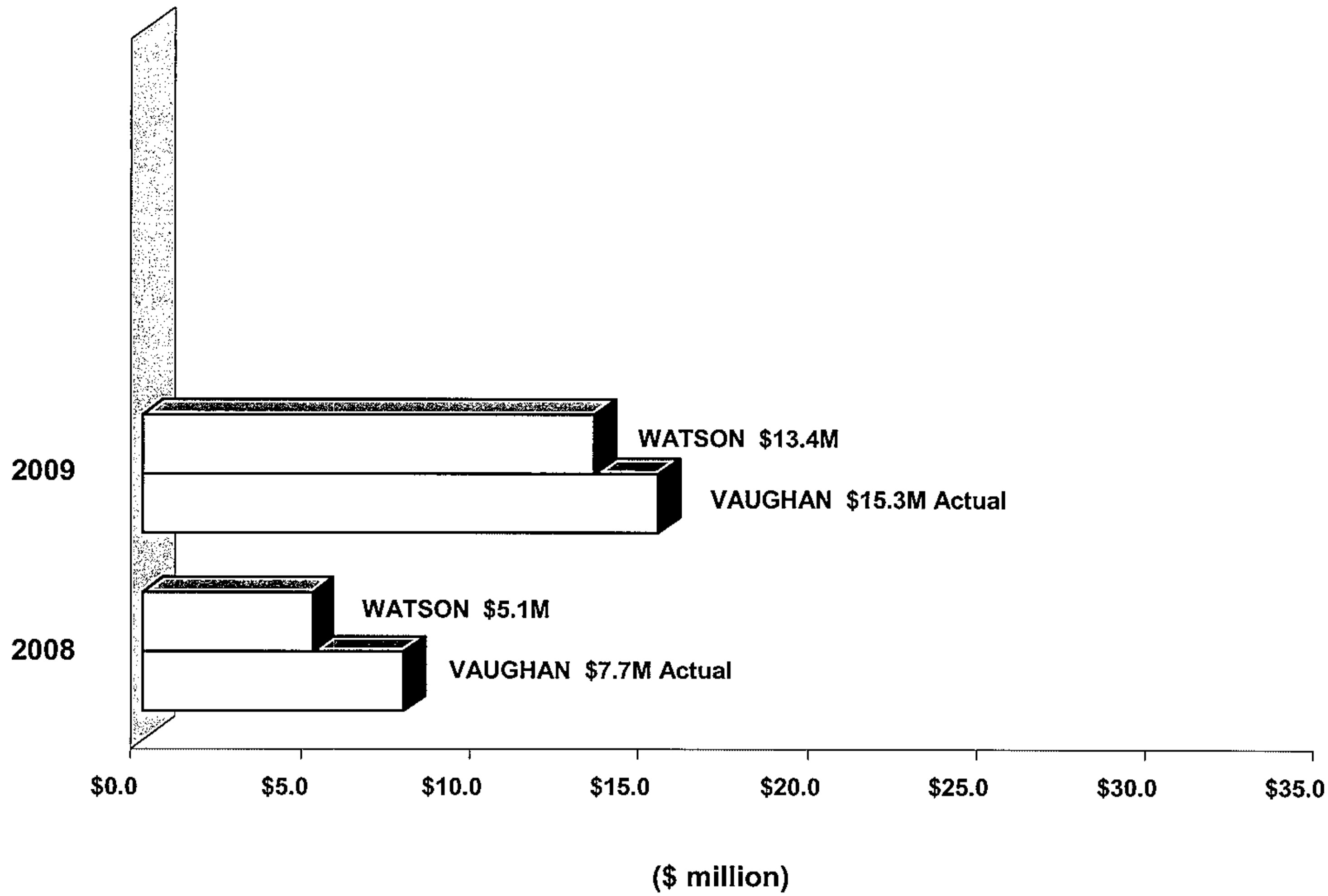

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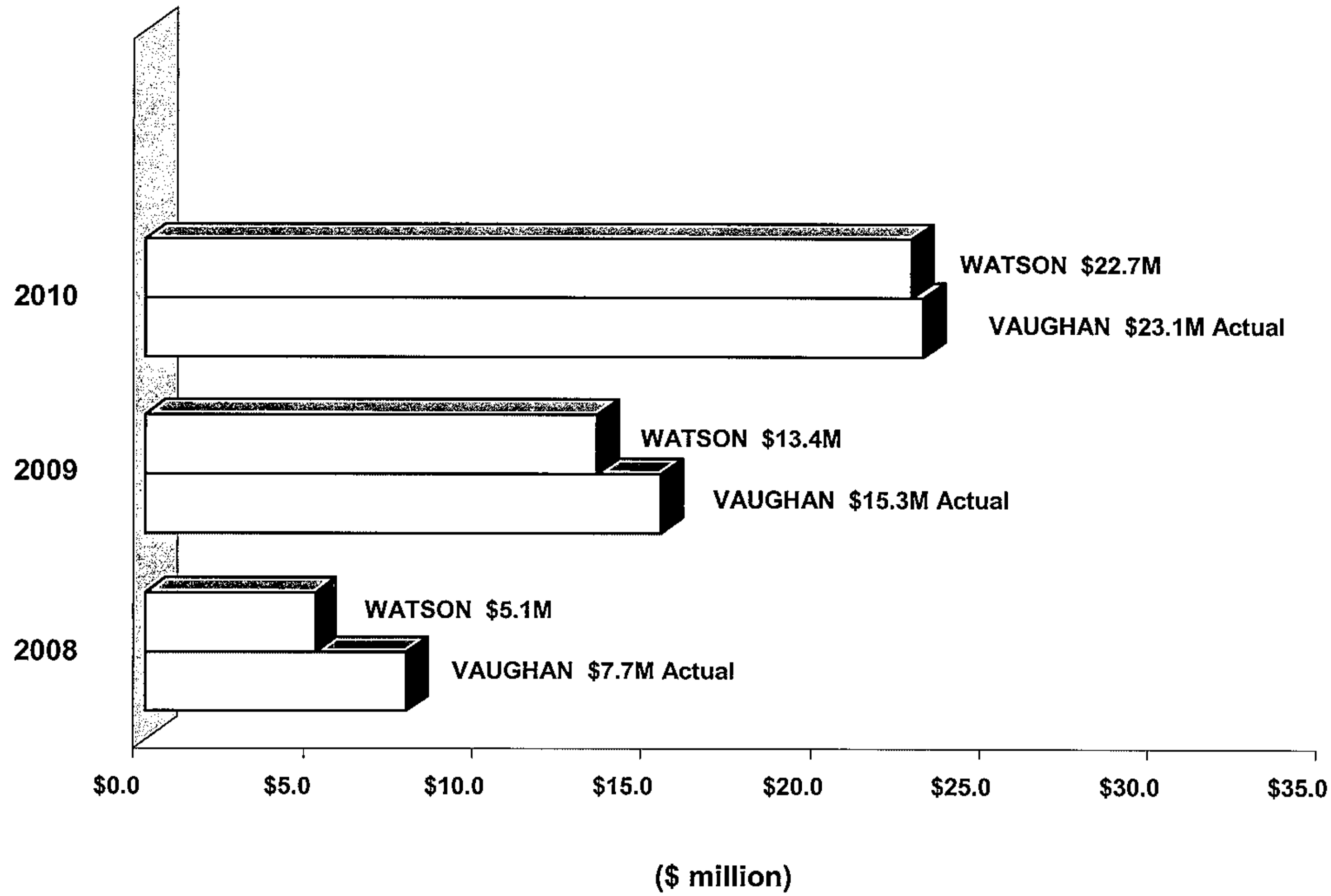

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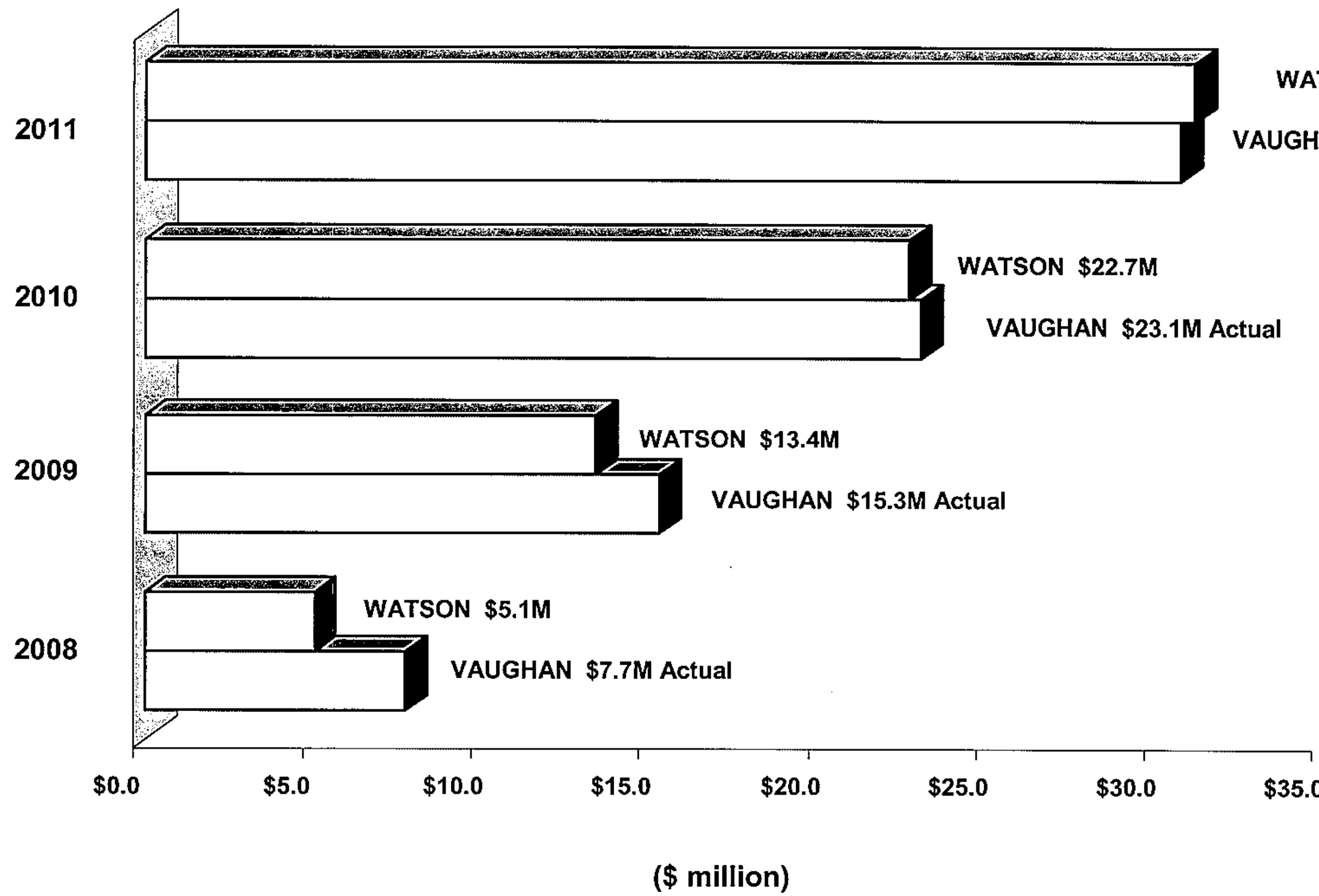
Cumulative Water / Wastewater Lifecycle Contribution Comparison



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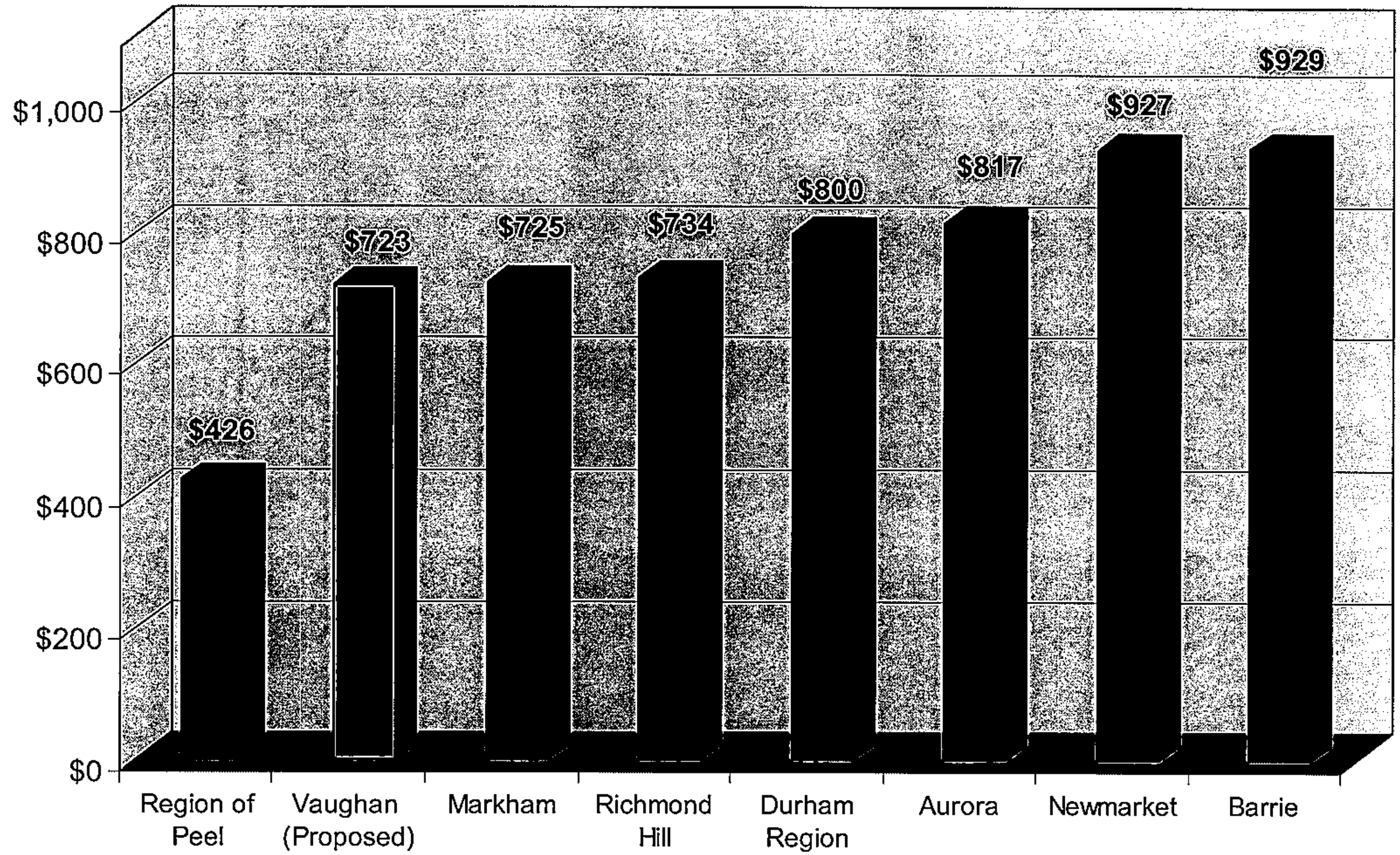
2011 Municipal Comparison – Total Water/Wastewater bill based on an average household consumption of 300 m^3 per year.



The Institute of Internal Auditors Information

FINANCE & ADMIN. CMTEE
COMMUNICATION C2
Date: May 16/11 ITEM NO. 5

{ CODE of ETHICS... }

Submitted by: Regional Councillor Rosati

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- ***Integrity***
  The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- ***Objectivity***
  Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- ***Confidentiality***
  Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- ***Competency***
  Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. *Integrity*

Internal Auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.

1.2. Shall observe the law and make disclosures expected by the law and the profession.

1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. *Objectivity*

Internal Auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. *Confidentiality*

Internal Auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. *Competency*

Internal Auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Internal audit

From Wikipedia, the free encyclopedia

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The scope of internal auditing within an organization is broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations.

Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, Internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

Publicly-traded corporations typically have an internal auditing department, led by a Chief Audit Executive ("CAE") who generally reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer.

The profession is unregulated, though there are a number of international standard setting bodies, an example of which is the Institute of Internal Auditors ("IIA"). The IIA has established Standards for the Professional Practice of Internal Auditing[1] and has over 150,000 members representing 165 countries, including approximately 65,000 Certified Internal Auditors.[2]

Accounting

Key concepts

Accountant · Accounting period · Bookkeeping · Cash and accrual basis · Constant Item Purchasing Power Accounting · Cost of goods sold · Debits and credits · Double-entry system · Fair value accounting · FIFO & LIFO · GAAP / International Financial Reporting Standards · General ledger · Historical cost · Matching principle · Revenue recognition · Trial balance

Fields of accounting

Cost · Financial · Forensic · Fund · Management · Tax

Financial statements

Statement of Financial Position · Statement of cash flows · Statement of changes in equity · Statement of comprehensive income · Notes · MD&A · XBRL

Auditing

Auditor's report · Financial audit · GAAS / ISA · **Internal audit** · Sarbanes–Oxley Act

Accounting qualifications

CA · CCA · CGA · CMA · CPA · CGFM · CWA

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Other definitions

The definition above (first sentence of this page) is in essence the IIA's definition[3]. A similar definition has been developed by the accounting profession and adopted by the government auditors: the **ISA 610** and the **INTOSAI's standard ("ISSAI") 1003** define the Internal audit function as *"An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control."*

History of internal auditing

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

Organizational independence

To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the Audit Committee, a sub-committee of the Board of Directors. To provide independence, most Chief Audit Executives report to the Chairperson of the Audit Committee and can only be replaced with the concurrence of that individual.

♦ According to the Institute of Internal Auditors, the Internal Auditor's obligation of Independence refers to:

- **1) The reporting line or status of the CAE** *The Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity* (IIA standard 1110).

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board (IIA practice advisory 1110A1). *The board is a governing body, such as the board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the* ***audit committee*** *to whom the chief audit executive may functionally report* (IIA Glossary).

- **2) Attitude of auditors, procedures of the internal audit department.** *The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results* (IIA practice advisory 1110A1).
- **3) Communication right.** *The chief audit executive must communicate and interact directly with the Board of Directors* (IIA standard 1111).

♦ According to Mautz R.K. & Sharaf H.A, **American Accounting Association**[4], there are three main ways in which the auditor's independence can manifest itself: Programming independence, Investigative independence, Reporting independence. For more detail, see the wikipage Auditor independence which deals with the independance of the external auditors.

♦ The **European Union** is strongly in favour of "Audit committees and an effective internal control system" (8th EU **Company Law Directive on Statutory Audit**[5]). This 8th Directive states that *"Each public-interest entity shall have an audit committee"* which inter alia shall *"monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems"*. The **European Confederation of Institutes of Internal Auditing** (ECIIA)[6] and Federation of European Risk Management Associations (FERMA) also support the independance of Internal Auditing. Their guidance[7] on the 8th EU Company Law Directive states *"The head of internal audit reports periodically to the board or the audit committee and to senior management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. The main reporting line is to the audit committee."*

♦ **Regarding public institutions**, the same principle of independance of internal audit applies; cf. INTOSAI's standard GOV9140 "Internal auditor independence in the public sector" endorsed in 2010, article 9.32 [8]. *"The CAE should report ... to those charged with governance for strategic direction, reinforcement, and accountability. Those charged with governance (e.g. the audit committee) should safeguard the independence by approving the internal audit charter and (where applicable) the mandate."*

The independence of the Internal Audit is applied by most international institutions: for instance, the European Commission audit is accountable to the Audit Progress Committee; the IBRD Auditor General reports to the president and to the audit committee comprising eight of the 24 executive directors; The IMF's internal audit is overseen by the External Audit Committee (three members, all external and with the "accounting and financial expertise required"); The OSCE's Office of Internal Oversight reports to the Secretariat General and the Permanent Council...

Role in internal control

Internal auditing activity is primarily directed at improving internal control. Under the COSO Framework, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following internal control categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with laws and regulations.

Management is responsible for internal control. Managers establish policies and processes to help the organization achieve specific objectives in each of these categories. Internal auditors perform audits to evaluate whether the policies and processes are designed and operating effectively and provide recommendations for improvement.

In the United States, internal auditors may assist management with compliance with the Sarbanes-Oxley Act (SOX).

Role in risk management

Internal auditing professional standards require the function to monitor and evaluate the effectiveness of the organization's Risk management processes. Risk management relates to how an organization sets objectives, then identifies, analyzes, and responds to those risks that could potentially impact its ability to realize its objectives.

Under the COSO enterprise risk management (ERM) Framework, risks fall under strategic, operational, financial reporting, and legal/regulatory categories. Management performs risk assessment activities as part of the ordinary course of business in each of these categories. Examples include: strategic planning, marketing planning, capital planning, budgeting, hedging, incentive payout structure, and credit/lending practices. Sarbanes-Oxley regulations also require extensive risk assessment of financial reporting processes. Corporate legal counsel often prepares comprehensive assessments of the current and potential litigation a company faces. Internal auditors may evaluate each of these activities, or focus on the processes used by management to report and monitor the risks identified. For example, internal auditors can advise management regarding the reporting of forward-looking operating measures to the Board, to help identify emerging risks.

In larger organizations, major strategic initiatives are implemented to achieve objectives and drive changes. As a member of senior management, the Chief Audit Executive (CAE) may participate in status updates on these major initiatives. This places the CAE in the position to report on many of the major risks the organization faces to the Audit Committee, or ensure management's reporting is effective for that purpose.

Internal auditors may help companies establish and maintain Enterprise Risk Management processes.[9][10] Internal auditors also play an important role in helping companies execute a SOX 404 top-down risk assessment. In these latter two areas, internal auditors typically are part of the project team in an advisory role.

Role in corporate governance

Internal auditing activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors. Corporate governance is a combination of processes and organizational structures implemented by the Board of Directors to inform, direct, manage, and monitor the organization's resources, strategies and policies towards the achievement of the organizations objectives.[11] The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillars being the Board of Directors, management, and the external auditor.[12]

A primary focus area of internal auditing as it relates to corporate governance is helping the Audit Committee of the Board of Directors (or equivalent) perform its responsibilities effectively. This may include reporting critical internal control problems, informing the Committee privately on the capabilities of key managers, suggesting questions or topics for the Audit Committee's meeting agendas, and coordinating carefully with the external auditor and management to ensure the Committee receives effective information.

Nature of the internal audit activity

Based on a risk assessment of the organization, internal auditors, management and oversight Boards determine where to focus internal auditing efforts. Internal auditing activity is generally conducted as one or more discrete projects. A typical internal audit project [13] involves the following steps:

1. Establish and communicate the scope and objectives for the audit to appropriate management.
2. Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.
3. Describe the key risks facing the business activities within the scope of the audit.
4. Identify control procedures used to ensure each key risk and transaction type is properly controlled and monitored.
5. Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.
6. Report problems identified and negotiate action plans with management to address the problems.
7. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

Project length varies based on the complexity of the activity being audited and Internal Audit resources available. Many of the above steps are iterative and may not all occur in the sequence indicated.

By analyzing and recommending business improvements in critical areas, auditors help the organization meet its objectives. In addition to assessing business processes, specialists called Information Technology (IT) Auditors review information technology controls.