

TORONTO STAFF REPORT

June 15, 2006

To: Audit Committee

From: Auditor General

Subject: The Audit of the Auditor – Results of the External Quality Assurance Review of the Auditor General's Office

Purpose:

To provide the Audit Committee with information related to the Auditor General's external quality assurance review.

Financial Implications and Impact Statement:

The City of Toronto paid only reasonable expenses incurred by review team members (airfare, hotel and meal costs) relating to the review. Expenses paid for the external quality assurance review totalled \$3,450. This amount has been provided for in the Auditor General's 2006 budget. The City of Toronto did not pay the value of each review team member's time. Instead, the City committed audit personnel to conduct peer reviews coordinated by the National Association of Local Government Auditors (N.A.L.G.A.) for its members.

Recommendations:

It is recommended that the report be received for information.

Background:

Government Auditing Standards state that "...each audit organisation performing audits and/or attestation engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS) should have an appropriate internal quality control system in place and should undergo an external peer review". Furthermore, the standards state that "...audit organizations performing audits and attestation engagements in accordance with GAGAS should have an external peer review of their auditing and attestation engagement practices at least once every three years by reviewers independent of the audit organization being reviewed."

In accordance with the Auditor General's by-law, the Auditor General's Office undergoes an annual review of expenditures. However, an evaluation of audit work is not performed during this annual review.

Compliance with Generally Accepted Government Auditing Standards is an important component of audit quality and is important in maintaining credibility with City Council, management and the taxpaying public.

Compliance with Generally Accepted Government Auditing Standards, including the external quality assurance review, is known to benefit both internal and external auditors in many ways including the following:

- Strengthens audit quality, consistency, uniformity and reliability
- Withstands legal scrutiny
- Contributes to professional development
- Enhances professional credibility
- Strengthens public/management relations

Nature of External Peer Review

The external quality assurance review process includes a complete review of the Auditor General's internal quality control policies and procedures, including related monitoring procedures, audit reports, documentation, and other necessary documents related to compliance with Generally Accepted Government Auditing Standards. The review also includes interviews with various levels of the Auditor General's professional staff, City management and members of the Audit Committee. The review team selects a cross section of audit work performed by the Auditor General's Office and provides an opinion on overall compliance with Generally Accepted Government Auditing Standards.

The review team is comprised of professional local government auditors from other organizations. Review team members are selected by a Committee of the National Association of Local Government Auditors. Review team members must meet certain qualifications in order to participate in the peer review process. Among the requirements for eligibility to serve are the following:

- Knowledge of generally accepted government auditing standards
- Knowledge of the external quality assurance process
- Independent of the audit organization under review
- Knowledge, skills and abilities related to the professional practice of internal auditing

It is noteworthy that reciprocal reviews are strictly prohibited by the National Association of Local Government Auditors. Audit organizations are not permitted to provide staff members from their organizations to participate on reviews of audit organizations from which review team members are employed.

Comments:

Reporting External Quality Assurance Review Results

The on-site portion of the Auditor General's peer review took place during the week of February 20, 2006. Following the week-long on-site review process, a written report was issued to the Auditor General communicating the results of the review (see Appendix 1). The Auditor General's written response to issues identified by the review team is also included as part of Appendix 2.

The review team found that the Auditor General's internal quality control system was in full compliance with Generally Accepted Government Auditing Standards. This is the highest level of compliance available in the N.A.L.G.A. Peer Review Program. The report issued by the review team also identified areas where the Auditor General's Office excels as well as suggestions for improvement.

The review identified the following areas where they believe the Auditor General's Office excels:

- Staff is exceptionally well qualified and professional;
- Office Policies and Procedures far exceed what is required under government auditing standards;
- Working papers are particularly well organized and thorough;
- Audit Reports are well written and contain all relevant issues summarized in the working papers;
- The Fraud and Waste Hotline is a valuable tool for citizens; and
- The Auditor General's Office has developed an excellent system to track the implementation status of outstanding audit recommendations.

The review team also provided the following suggestions for improving the operations of the Auditor General's Office:

Suggestion One: Review of Work Papers Prior to Release of the Audit Report

“In one engagement we examined, your office had some work papers that were not reviewed until after the report was released. Government Auditing Standards direct that supervision include reviewing the work performed. Consequently, work papers should be reviewed prior to the release of the report. We did see evidence of other supervisory review, such as supervisory logs, and checklist, which were completed before the report was released. Such controls mitigate the risk of having work papers reviewed after the release of the report.”

Suggestion Two: Inclusion of Management's Response with the Audit Report

“We observed that the office does not include management's response with the audit report. Government Auditing Standards require that auditors should include in their report a copy of the officials' written comments or a summary of the comments received.”

As stated in our written response to the review team, we appreciate the additional observations and suggestions made to enhance our operations. We agree with both suggestions provided in their report and will work to ensure both are fully implemented.

Conclusions:

The external quality assurance review performed by independent reviewers selected by a committee of the National Association of Local Government Auditors (N.A.L.G.A.) is complete. In the opinion of the review team, the Auditor General's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of compliance with Generally Accepted Government Auditing Standards for audits and attestation engagements.

N.A.L.G.A. is a North American organization of local government auditors and includes organizations that have undergone external quality assurance review. Approximately 33 per cent of N.A.L.G.A. member organizations have participated in the external quality assurance review process. The City of Toronto Auditor General's Office is the first Canadian local government audit organization to have undergone a review of this nature.

The N.A.L.G.A. external quality assurance review will result in significant benefits to both the Auditor General's Office and the City. A few of the anticipated benefits we expect from successful completion of the external quality assurance process include enhancing the quality and credibility of audit work, strengthening the uniformity, consistency and reliability of audit working papers and perhaps most importantly, answering the often asked question, "Who's auditing the auditor"? As well, as audit work is frequently used as evidence in legal proceedings, audit organizations participating in the external quality assurance process are provided an additional level of assurance that evidence and documentation used in court will withstand the scrutiny received in such circumstances.

We found the external quality review to be a valuable and constructive process and look forward to our next review in February 2009.

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List of Attachments:

Appendix 1: N.A.L.G.A. External Quality Control Review of the Auditor General's Office, Toronto, ON (for the period September 2004 through December 2005)

Appendix 2: Auditor General's written response, February 24, 2006