



External Quality Control Review

of the
City of Toronto Auditor General's
Office

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period January 1, 2012 through December
31, 2014



Association of Local Government Auditors

August 7, 2015

Beverly Romeo-Beehler, Auditor General
Auditor General's Office
55 John Street 9th Floor
Toronto, Ontario M5V 3C6

Dear Ms. Romeo-Beehler,

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2012 through December 31, 2014. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).


We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:


- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audits and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff, management, and members of the Audit Committee to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of Toronto Auditor General's Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits from January 1, 2012 through December 31, 2014.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.


Wendy Simeon
City of Phoenix


Nancy Hunt
City of Kansas City, Missouri



Association of Local Government Auditors

August 7, 2015

Beverly Romeo-Beehler, Auditor General
Auditor General's Office
55 John Street 9th Floor
Toronto, Ontario M5V 3C6

Dear Ms. Romeo-Beehler,

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2012 through December 31, 2014 and issued our report thereon dated August 7, 2015. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The standard templates and checklists the office has developed and incorporated into their audit processes helps ensure compliance with professional standards.
- The audit staff is highly qualified as evidenced by their numerous certifications and solid technical skills.
- The knowledgeable and efficient administrative team provides excellent support allowing the audit staff to conduct their audit work more efficiently.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Standard 3.76 requires auditors performing work in accordance with GAGAS to complete, every 2 years, at least 80 hours of CPE which includes at least 24 hours of CPE that directly relates to government auditing. In addition, auditors must complete a minimum of 20 hours of CPE each year. In reviewing the Office CPE records, we observed that not all staff members met all the CPE requirements. Some staff did not receive enough CPE hours; some hours were counted when participation was less than the required 50 minute minimum; and government hours were not properly tracked or met.

We recommend the Office review *GAO's Guidance on GAGAS Requirements for Continuing Professional Education* and implement additional procedures that ensure compliance with CPE requirements.

- Standard 7.31 states "When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. The previous Auditor General was not in compliance with CPE requirements for more than four years and other staff also did not meet the requirements.

We recommend the Office ensure the GAGAS statement is modified when applicable standards have not been followed.

- Standard 3.95 requires the audit organization to “summarize the results of its monitoring process at least annually with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action”. We noted that the annual quality reviews were not completed timely, the results of the quality reviews were not summarized, and recommendations and corrective actions were not documented. We also noted the Office attempted to review 100% of the audits completed although *Government Auditing Standards* do not require all audits be reviewed.

We recommend the Office select a sample of audits for quality control review, which will help ensure the annual quality review is completed timely, and document the results and recommendations of the reviews.

- Standard 6.11 states “Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: ...e) ongoing investigations or legal proceedings within the context of the audit objectives”. While the Office inquires about fraud, waste and investigations via its Survey Checklist, the Checklist did not specifically address legal proceedings.

We recommend the Office update the Survey Checklist to include reference to ongoing investigations and legal proceedings and document the consideration of legal proceedings in the work papers.

- Standard 6.83 c states “auditors should document supervisory review, before the audit report is issued.” The peer review team could not always determine when a report was issued, so were unable to determine whether supervisory reviews were completed before the report was issued.

We recommend the Office define report issuance date and ensure supervisory review occurs before the report issuance date.

- Standard 2.10 states “that performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action...”. Generally, when an audit organization reports information without following GAGAS, the work product is categorized as nonaudit services. While reviewing the “Auditor General Audit Reports” posted to the website, we noted all reports were presented as “Auditor General Audit Reports” including administrative and forensic projects. We noted the Office does not classify Forensic Reports as performance audits; however, one report stated the review was conducted due to numerous fraud hotline complaints; in addition, the report included recommendations for corrective action and management's concurrence that action was needed and would be completed.

We recommend the Office remove “audit report” from any items issued that are not performance audits and consider whether some reports issued by the Forensic Unit are in fact performance audits.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Wendy Simeon
City of Phoenix



Nancy Hunt
City of Kansas City, Missouri

September 1, 2015

Ms. Wendy Simeon
Internal Auditor
City of Phoenix City Auditor Department
17 S 2nd Ave, Suite 200
Phoenix, AZ 85003

Dear Ms. Simeon,

Thank you for leading the External Peer Review of the City of Toronto Auditor General's Office. Your review is a valuable part of our continuing efforts to improve the quality of audits, and we are pleased you found that audits performed by the City of Toronto Auditor General's Office comply with Government Auditing Standards.

The Auditor General's Office is committed to continuously improving the quality of our audit work. We appreciate your thoughtful comments regarding the areas where you found our Office excels including your acknowledgement of the use of standard templates and checklists in our audit processes, and the quality of professional and administrative staff that contribute to our ability to conduct audit work efficiently and in compliance with professional standards.

We appreciate your observations and suggestions to further enhance our operations. Our response to each of the recommendations are highlighted below:

- *Standard 3.76 requires auditors performing work in accordance with GAGAS to complete, every 2 years, at least 80 hours of CPE which includes at least 24 hours of CPE that directly relates to government auditing. In addition, auditors must complete a minimum of 20 hours of CPE each year. In reviewing the Office CPE records, we observed that not all staff met all the CPE requirements. Some staff did not receive enough CPE hours; some hours were counted when participation was less than the required 50 minute minimum; and government hours were not properly tracked or met.*

We recommend the Office review GAO's Guidance on GAGAS Requirements for Continuing Professional Education and implement additional procedures that ensure compliance with CPE requirements.

AGO Response: Subsequent to the peer review we have reviewed GAO's Guidance on GAGAS Requirements for Continuing Professional Education (CPE). We have also implemented additional procedures that will help ensure compliance with ongoing CPE requirements, including:

- The 2-year CPE period was clarified in the Audit Manual and communicated to all staff;
- The designee for CPE tracking will ensure that:
 - Training will not qualify for CPE credit unless greater than 50 minutes
 - Supporting documentation for CPE hours will clearly identify hours claimed
 - Pro-rated hours will be calculated based on a six month period
- *Standard 7.31 states "When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report". The previous Auditor General was not in compliance with CPE requirements for more than four years and other staff also did not meet the requirements.*

We recommend the Office ensure the GAGAS statement is modified when applicable standards have not been followed.

AGO Response: We will ensure all staff are in compliance with CPE requirements as described in our response to the recommendation above. In the unlikely event staff do not meet CPE requirements, we will ensure the GAGAS statement is modified appropriately.

- *Standard 3.95 requires the audit organization to "summarize the results of its monitoring process at least annually with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action". We noted that the annual quality reviews were not completed timely, the results of the quality reviews were not summarized, and recommendations and corrective actions were not documented. We also noted the Office attempted to review 100% of the audits completed although Government Auditing Standards do not require all audits be reviewed.*

We recommend the Office select a sample of audits for quality control review, which will help ensure the annual quality review is completed timely, and document the results and recommendations of the reviews.

AGO Response: As part of our annual internal quality control review process, we will consider reducing our sample size. Additionally, we will endeavor to complete the annual internal quality control review and communicate the results and recommendations to AG staff within 3 months of year-end.

- *Standard 6.11 states "Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: e) ongoing investigations or legal proceedings within the context of the audit objectives". While the*

Office inquires about fraud, waste and investigations via its Survey Checklist, the Checklist did not specifically address legal proceedings.

We recommend the Office update the Survey Checklist to include reference to ongoing investigations and legal proceedings and document the consideration of legal proceedings in the work papers.

AGO Response: We have updated the Survey Checklist to include reference to ongoing investigations and legal proceedings. Auditors are required to enquire with management of any ongoing investigations and/or legal proceedings that may be within the context of the audit objective(s). Such enquiries/discussions and consideration of audit impact will be documented in the relevant working papers.

- *Standard 6.83 c states “auditors should document supervisory review, before the audit report is issued”. The peer review team could not always determine when a report was issued, so were unable to determine whether supervisory reviews were completed before the report was issued.*

We recommend the Office define report issuance date and ensure supervisory review occurs before the report issuance date.

AGO Response: The Auditor General will evaluate options and determine the appropriate report issuance date and apply it to audit reports going forward. The Auditor General's Office *Policies and Procedures Manual* requires that supervisory reviews of work performed that supports findings, conclusions, and recommendations included in the report occur before the report issuance date.

- *Standard 2.10 states “that performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action...”. Generally, when an audit organization reports information without following GAGAS, the work product is categorized as nonaudit services. While reviewing the “Auditor General Audit Reports” posted to the website, we noted all reports were presented as “Auditor General Audit Reports” including administrative and forensic projects. We noted the Office does not classify Forensic Reports as performance audits; however, one report stated the review was conducted due to numerous fraud hotline complaints. In addition, the report included recommendations for corrective action and management’s concurrence that action was needed and would be completed.*

We recommend the Office remove “audit report” from any items issued that are not performance audits and consider whether some reports issued by the Forensic Unit are in fact performance audits.”

AGO Response: We have revised the name of the website link from “Audit Reports” to “Reports”. All reports prepared by the Auditor General, including audit, continuous controls monitoring, annual, forensic, and other/administrative reports are identified as “Auditor General's Report”. Items that are not performance audits, are not considered

“audit reports”, but are still considered “Auditor General's Report”. Also, when appropriate, the Auditor General will consider whether reports issued by the Forensic Unit would be classified as performance audits.

Our entire office found the peer review to be a valuable and constructive process. We appreciate the professionalism with which you carried out your responsibilities as peer reviewers, as well as the insights gained from your own organizations.

I would like to extend my personal thanks to you and Ms. Nancy Hunt for taking the time to review our operations, and for your participation in the ALGA peer review program.

Yours very truly,

A handwritten signature in black ink, appearing to read "B. Beehler", with a large, sweeping flourish at the end.

Beverly Romeo-Beehler
Auditor General