

Results of 2018 External Quality Control Review

Date: January 30, 2019

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

Compliance with Government Auditing Standards is an important component of audit quality and is critical in maintaining credibility with City Council, management and taxpayers.

Government Auditing Standards require that audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards undergo an external peer review every three years. Chapter 3 of the Toronto Municipal Code also requires that the *“Auditor General shall undergo an external peer review once every three years to ensure compliance with government auditing standards”* and that *“the results of the external peer review shall be reported to Council through the Audit Committee”*.

An external peer review answers the question, “Who audits the auditor?”

This report provides the results of the External Quality Control Review performed by the Association of Local Government Auditors (ALGA) for the period January 1, 2015 through December 31, 2017. The Auditor General's Office received the highest possible rating on its peer review – the fifth time the Office has received this rating.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The recommendation in this report has no financial impact.

DECISION HISTORY

The Auditor General's Office follows Generally Accepted Government Auditing Standards (GAGAS) for all audits. These standards require that *"Audit organizations performing audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years"*.

In July 2018, the Auditor General advised Audit Committee that an external peer review of the Office would be performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA). ALGA is a North American organization who has performed over 500 reviews since it began operating its peer review program in 1991. This is the fifth such review for the Auditor General's Office. The report to Audit Committee is posted on the City website at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU13.21>

In February 2006, the City of Toronto Auditor General's Office was the first Canadian local government audit organization to have undergone a review of this nature. Since then, four additional external peer reviews have been conducted and the Auditor General received an "unqualified" opinion in all these reviews. An "unqualified" opinion is the highest class of opinion report available and indicates that audit work conducted by the Auditor General's Office is performed in accordance with Generally Accepted Government Auditing Standards.

The results of all four previous external peer reviews are posted on the City website at:

http://www.toronto.ca/audit/2006/audit_of_the_auditor_app1and2_june2006.pdf

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.AU11.3>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.5>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>

COMMENTS

The Auditor General is subject to a significant amount of external oversight as outlined in the report dated March 20, 2009, "A Policy Framework for Toronto's Accountability Offices" approved by City Council. Oversight of the Auditor General's Office and the other Accountability Offices is provided through:

- Annual reporting to City Council
- The annual attest audit
- The annual compliance audit

The Auditor General's Office is also subject to an independent external peer review by the Association of Local Government Auditors (ALGA).

Chapter 3 of the Toronto Municipal Code states that the *“Auditor General shall undergo an external peer review once every three years to ensure compliance with government auditing standards”* and that *“the results of the external peer review shall be reported to Council through the Audit Committee”*.

Compliance with Generally Accepted Government Auditing Standards is an important component of audit quality. Adherence with these Standards, including requirements for external peer reviews, benefits both the Office and the City by:

- Strengthening audit quality, consistency, uniformity and reliability
- Withstanding legal scrutiny
- Contributing to professional development
- Enhancing professional credibility
- Strengthening public/management relations

Nature of External Peer Review

The external peer review process looked at the Auditor General's internal quality control system. The independent reviewers' procedures included:

- Reviewing the Office's written policies and procedures
- Reviewing internal monitoring procedures
- Reviewing a sample of audit and investigation reports and working papers (including documentation of evidence to support reported findings and conclusions)
- Reviewing documents related to independence, training, and development of auditing staff
- Interviewing professional staff at various levels within the Auditor General's Office, as well as a member of the Audit Committee to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Reporting External Peer Review Results

Upon completion of their review of the Auditor General's internal quality control system, including a cross section of work performed by the Auditor General's Office, the peer reviewers provide a written opinion letter to the Auditor General communicating the results of the review.

The peer review team found that the *“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 during the period January 1, 2015 through December 31, 2017”*. This is the highest level of compliance available in the ALGA Peer Review Program. The opinion letter, together with the Auditor General's written response, is included as Attachment 1 to this report. A certificate of compliance issued to the Auditor General's Office is included as Attachment 2 to this report.

During the review, the peer review team also provided verbal comments on many areas where the Auditor General's Office excels, including:

- the impactful nature of audits and investigations performed,
- the rigour of the supervisory review process, and
- the positive team environment and, in particular, all levels of staff being engaged in training and development opportunities.

It is also worth noting that the Auditor General's Office did not receive any suggestions for improvement from the peer review team during this review. Nonetheless, we will continue enhancing our processes where and when opportunities arise to ensure the highest quality in our audits.

CONTACT

Ina Chan, Assistant Auditor General, Auditor General's Office
Tel: 416-392-8472; Fax: 416-392-3754; Email: Ina.Chan@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Association of Local Government Auditors' Opinion Letter dated November 1, 2018 and the Auditor General's Response dated November 1, 2018

Attachment 2: Certificate of Compliance issued by the Association of Local Government Auditors