

TORONTO STAFF REPORT

May 29, 2005

To: Audit Committee
From: Auditor General
Subject: Auditor General's External Peer Review – 2006

Purpose:

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

Financial Implications and Impact Statement:

There are no immediate financial implications resulting from this report. However, reasonable expenses incurred by members of the peer review team (airfare, hotel and meal expenses) will be paid from the Auditor General's Office budget upon completion of the proposed external peer review. The peer review will be conducted by the National Association of Local Government Auditors. Reasonable expenses are not expected to exceed \$5,000. There will be no payment for the value of each peer review team member's time. Instead, staff from the Auditor General's Office will in turn conduct peer reviews, co-ordinated by the National Association of Local Government Auditors, for its members.

Recommendations:

It is recommended that the Audit Committee receive the report and forward to City Council for information.

Background:

Government Auditing Standards state that "...each audit organization performing audits and/or attestation engagements in accordance with Generally Accepted Government Auditing Standards 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 Generally Accepted Government Auditing Standards 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 City of Toronto By-law 457-2002, the Auditor General’s Office undergoes a biennial review of expenditures. However, periodic external review of audit work is not performed.

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

Compliance with Government Auditing Standards and peer review is known to benefit both internal and external auditors in many ways, such as:

- strengthens audit quality, consistency, uniformity and reliability
- withstands legal scrutiny;
- contributes to professional development;
- enhances professional credibility; and
- strengthens public/management relations.

Comments:

Nature of External Peer Review

The external peer review process includes a complete review of the Auditor General’s internal quality control policies and procedures, related monitoring procedures, audit reports, documentation, and other necessary documents related to compliance with 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 Government Auditing Standards.

Reporting Peer Review Results

A written report is prepared communicating the results of the peer review. The written report is issued to the Auditor General for written response to issues identified by the review team. The written report and the Auditor General’s written response are then transmitted to the Audit Committee and City Council.

Proposed Schedule and Measurement Period

The on-site portion of the Auditor General’s peer review is scheduled for January 2006. Audits conducted during the period beginning September 1, 2004 through December 31, 2005 will be eligible for review. This period is known as the “measurement period”. As this is the first time the Auditor General’s Office has undergone such a review, this 16 month measurement period is

allowable under the Standards. Future reviews are required to include a three-year term from the end of the previous measurement period.

Conclusions:

The external peer review is to be performed by independent reviewers selected by a committee of the National Association of Local Government Auditors (N.A.L.G.A.). N.A.L.G.A. is a North American organization of local government auditors and includes organizations that have undergone external peer review. Approximately 33 percent of N.A.L.G.A. member organizations have participated in the peer review process. Upon completion of the review, the City of Toronto Auditor General's Office will be the first Canadian local government audit organization to have undergone a review of this nature.

The N.A.L.G.A. external peer 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 peer review process are 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 peer review process are provided an additional level of assurance that evidence and documentation used in court will withstand the scrutiny received in such circumstances.

Upon completion of our participation in the external review process, we will provide a complete report to the Audit Committee on the outcome.

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