

TORONTO STAFF REPORT

February 6, 2006

To: Audit Committee

From: Auditor General

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

Purpose:

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

Financial Implications and Impact Statement:

Upon completion of the proposed external quality assurance review, the City of Toronto will pay reasonable expenses incurred by review team members (airfare, hotel and meal costs) relating to the review. Reasonable expenses are not expected to exceed \$5,000. The City of Toronto will not pay the value of each review team member's time. Instead, the City will commit 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 this report be received 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 (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."

Comments:

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

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

Compliance with Government Auditing Standards and the external quality assurance review are 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 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 External Quality Assurance Review Results

The on-site portion of the Auditor General's peer review is scheduled for the week of February 20, 2006. A representative from the peer review team will provide a brief introduction to the external quality control process the Audit Committee on February 22, 2006.

A written report is prepared communicating the results of the review. The report is issued to the Auditor General for written response to issues identified by the review team. The report and the Auditor General's written response will be tabled at the May 2006 Audit Committee and subsequently forwarded to City Council.

Conclusions:

The external quality assurance 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 organisations that have undergone external quality assurance review. About 33 per cent of N.A.L.G.A. member organizations have participated in the external quality assurance 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 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 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 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.

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