

Auditor General's External Quality Assurance Review

Date:	April 2, 2009
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

Government auditing standards require that audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) undergo an external quality assurance review every three years. This report provides the results of the Auditor General's External Quality Assurance Review. This is the second such review for the Auditor General's Office. The Auditor General received an "unqualified opinion" for this review. An "unqualified opinion" is the highest rating possible and indicates that audit work is conducted in accordance with Generally Accepted Government Auditing Standards. The process also provides the opportunity for reviewers to offer observations related to audit organization practices that are particularly noteworthy as well as suggestions related to professional industry best practices.

RECOMMENDATIONS

The Auditor General recommends that:

1. the Audit Committee receive this report for information.

FINANCIAL IMPACT

The recommendations in this report have no financial impact.

DECISION HISTORY

On November 4, 2008, the Audit Committee received an information report from the Auditor General regarding the February 2009 external quality assurance review of the Auditor General's Office. This is the second time the Auditor General's Office has

undergone an external quality assurance review. The results of our first review were reported to the Audit Committee in June 2006. At that time, the Auditor General's Office was the first Canadian local government audit agency to undergo such a review.

COMMENTS

Government Auditing Standards state:

“Audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.”

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 the Chair 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 the Association of Local Government Auditors (ALGA) Peer Review Committee. 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 also worth noting that the Association of Local Government Auditors has restrictions in place to control for reciprocal reviews of audit organizations under review.

Reporting External Quality Assurance Review Results

The on-site portion of the Auditor General's peer review took place during the week of February 23, 2009. Following the week-long on-site review process, a written audit report and a management letter were issued to the Auditor General communicating the results of the review and are attached to this report as Appendix 1 & 2. The Auditor General's written response to issues identified by the review team is attached to this report as Appendix 3.

The review team found that for the period under review, 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 ALGA Peer Review Program. The report issued by the review team also identified areas where the Auditor General's Office excels as well as one suggestion for improvement.

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

- Office Policies and Procedures are well-written and substantially exceed the requirements under *Government Auditing Standards*. They also promote consistency among the work papers across audits;
- Staff is highly qualified and diverse with a broad range of subject area expertise;
- Electronic automation of audit recommendation follow-up is an innovative and excellent idea, and makes the process much more efficient;
- Internal committees that focus on quality assurance and critical issues are an "excellent idea"; and
- The system for electronically distributing reports minimizes paper consumption and is environmentally friendly.

The review team also provided one observation for improving the operations of the Auditor General's Office. Their management letter states:

"In one of the six engagements we examined, neither the survey checklist nor the audit program addresses the risk of fraud. In our determination the risk of fraud was not likely for this particular engagement. *Government Auditing Standards* direct that when planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Consequently, the Fraud and Abuse section should be included in the work papers, and the auditor should indicate N/A if the standard is not applicable."

As stated in our written response to the review team, we appreciate the additional observation made to enhance our operations. As indicated in the peer review team's management letter comment, they agreed with our determination that the risk of fraud was not likely for this particular engagement which was an audit of the City's performance in Achieving Access, Equity and Human Rights Goals. Our assessment of fraud was not included in the documentation because of timing issues related to the internal release of revised 2007 *Government Auditing Standards* (for audits effective January 1, 2008). The 2008 planning templates were not available to audit staff at the time this engagement was initiated. As a result, the 2004 version was used which did not include the new requirement to document auditor consideration of fraud risk.

The revised version was released shortly after the completion of the planning phase of this engagement and is currently in place.

CONTACT

Alan Ash, Director, Auditor General's Office

Tel: 416-392-8476 Fax: 416-392-3754, E-mail: aash@toronto.ca

Jeff Griffiths, Auditor General, Auditor General's Office

Tel: 416-392-8031, Fax: 416-392-3754, E-mail: jeff.griffiths@toronto.ca

SIGNATURE

Jeffrey Griffiths, Auditor General

ATTACHMENTS

- Appendix 1: Audit Report Issued by the Association of Local Government Auditors, February 27, 2009
- Appendix 2: Management Letter Issued by the Association of Local Government Auditors, February 27, 2009
- Appendix 3: Response from the Auditor General, March 10, 2009