

**Auditor General's Office  
2010 Budget**

**November 9, 2009**

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 **TORONTO** Auditor General's Office

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Jeffrey Griffiths, C.A., C.F.E.  
Auditor General  
City of Toronto

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## THE AUDIT FRAMEWORK AT THE CITY OF TORONTO

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In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework. The *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".

The 2002 audit framework established three levels of audit services for the City of Toronto. This framework is consistent with best practices in most major Cities.

- (1) The Auditor General's Office was created in order to report directly to and provide assurance strictly for City Council. The *Act* has not changed this requirement.
- (2) A separate Internal Audit Division reporting to the City Manager was established to provide assurance and management consulting advice for the City's Executive Management Team. While the establishment of an Internal Audit function is not a legislative requirement, it does represent best practice and is consistent with practices in other large government organizations.
- (3) As required by the *Act*, an external auditor is appointed by City Council to perform the annual statutory audit of the City's financial statements including Agencies, Boards and Commissions and provide an opinion on the fairness of the information presented in these financial statements.

In addition to the audit framework within the City, there are separate and distinct audit functions in two of the City's major local Boards; the Toronto Transit Commission and the Toronto Police Service. Both of these audit functions operate in much the same way as the City's Internal Audit Division and report directly to the Chief General Manager of the TTC and the Chief of Police respectively.

## **The Auditor General's Office**

### ***City of Toronto Act and the Auditor General***

City of Toronto Bylaw 1076-2002 enacted in 2002, and set out in Chapter 169 of the Municipal Code, established the Auditor General's Office, duties and responsibilities. As indicated above, the *City of Toronto Act* mandates the appointment of an Auditor General who reports to City Council. Under Section 178 (1) of the *Act* "*the Auditor General is responsible for assisting City Council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.*"

## **The Internal Audit Division – City Manager's Office**

### ***Internal audit function***

The Internal Audit Division reports to the City Manager and is responsible for providing internal audit services and support to senior management in the City. The internal audit function provides consulting services designed to improve the administration of municipal operations and promotes compliance with City policies and procedures.

## **External Annual Financial Audits**

### ***Annual audit of City's financial statements***

Under Section 139 of the *Act*, the City is required to appoint an auditor licensed under the Public Accounting Act 2004, who is responsible for annually auditing the accounts and transactions of the City and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. Also in accordance with the *Act*, the auditor shall not be appointed for a term exceeding five years and shall not be a City employee or an employee of a local board of the City. The auditor reports to City Council.

### ***Auditor General oversees external audit contract***

Ernst & Young, LLP an external public accounting firm, is responsible for the annual statutory audit of the City's financial statements under a five-year contract that ended December 2007. In March 2008, City Council approved a contract extension with Ernst & Young LLP for statutory audit services through 2008 and 2009. The Auditor General is responsible for issuing the request for proposal to secure the external audit services required by the City and maintains an oversight role for these statutory audits.

***Other financial statement audits***

Separate external auditors have been appointed for the City Community Centres, City Arenas and a number of other City entities (Heritage Toronto, Yonge-Dundas Square, the Toronto Atmospheric Funds and the Clean Air Partnership). In May 2008, City Council approved a contract with Grant Thornton LLP to perform financial statement audits for each one of these entities.

**Internal Audit Functions at the Toronto Transit Commission and the Toronto Police Service**

Separate internal audit functions exist at both the Toronto Transit Commission and the Toronto Police Service. The internal audit function at the Toronto Transit Commission and the Toronto Police Service each report directly to management in a similar manner to the City's Internal Audit Division.

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**THE AUDITOR GENERAL'S OFFICE**

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As outlined under Section 178 of the *Act*, "*The Auditor General is responsible for assisting city council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in city operations.*"

The audit process is an independent, objective assurance activity designed to add value and improve an organization's operations. The audit process assists an organization in accomplishing this objective by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

**Responsibilities of the Auditor General**

***Auditor General's independence, authority and reporting***

In carrying out its audit activities, the Auditor General's Office is independent of management, and has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City divisions, and those local boards provided for under the *Act* and such City-controlled corporations and grant recipients as City Council may specify. The Auditor General reports to Council through the Audit Committee.

Specific responsibilities of the Auditor General include:

- Conduct audit projects identified by the Auditor General through the Auditor General's risk assessment process. Such projects are included in the Auditor General's annual work plan.
- Conduct forensic investigations including those involving suspected fraudulent activities.
- Conduct special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council.
- Oversee the work and the contract of the external auditors performing annual financial statement audits.
- Manage the Fraud and Waste Hotline Program, including the investigation of complaints, as well as the referral of certain concerns and issues to divisional management.

***Coordination and consultation with other audit functions***

Audit work at the City requires coordination with the City Manager's Internal Audit Division, as well as audit groups at the Toronto Transit Commission and the Toronto Police Service. The Auditor General meets with each of these groups on a regular basis in order to ensure that he is aware of any audit concerns and to ensure that there is no duplication of audit work.

***Coordination and consultation with external auditors, other Accountability Officers and City Manager***

The Auditor General also meets on a regular basis with both the external auditor and the City's other Accountability Officers to discuss any issues of mutual concern.

Finally, the Auditor General meets with the City Manager on a regular basis to discuss a wide range of issues, including the annual work plan and upcoming audit reports.

## **Professional Audit Standards**

### ***Audits conducted in compliance with Government Auditing Standards***

The Auditor General's Office conducts its audit work in accordance with generally accepted Government Auditing Standards. Audits are conducted in accordance with these standards, which relate to independence, objectivity, professional proficiency, scope and performance of work.

### ***Staff bound by professional standards and ethics***

Staff are also bound by the standards and ethics of their respective professional organizations, which include the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association, the Society of Management Accountants, the Information Systems Audit and Control Association, the Institute of Certified Fraud Examiners, and the Institute of Internal Auditors. All professional members of the Auditor General's Office have at least one professional designation. Details of staff qualifications are provided on the following web site  
[http://www.toronto.ca/audit/about\\_audit.htm#staffing](http://www.toronto.ca/audit/about_audit.htm#staffing).

## **Independent Quality Assurance Review of the Auditor General's Office**

### ***Government Auditing Standards require an independent review***

A requirement of Government Auditing Standards is that audit organizations undergo an external independent quality assurance review at least once every three years. The objective of a quality assurance review is to determine whether an audit organization's internal quality control system is in place and operating effectively. A quality assurance review provides assurance that established policies and procedures and applicable auditing standards are being followed.

### ***Auditor General's second quality assurance review***

The Auditor General's Office underwent its second quality assurance review during 2009. No other audit office in Canada has undergone such a process. Two reports were issued by representatives from the Association of Local Government Auditors (ALGA) an independent professional body which conducts a significant number of quality assurance reviews throughout the US. The reports issued by ALGA are attached to this report as Exhibit 3.

## **Annual Compliance Audit**

### ***Auditor General in compliance with all appropriate City policies***

The Auditor General's Office undergoes an annual compliance audit by a separate and independent external auditor, appointed by and reporting to City Council. The auditor responsible for the Auditor General's Office is the firm of Gore and Associates. The annual compliance audit provides Council assurance that the Auditor General's Office is carrying out their operations within delegated authorities and in compliance with applicable City bylaws and policies.

## **Staff Training**

### ***Auditor General's commitment to staff training***

The Auditor General's Office is committed to ensuring that staff maintain professional proficiency through continuing professional education (CPE) in accordance with Generally Accepted Government Auditing Standards. These standards require that each auditor complete 80 hours of CPE every two years with at least 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

### ***Auditor General's staff training program***

The Auditor General's Office establishes a training program each year to assist staff in meeting these requirements. An internal Training Committee oversees the training program of the Office. Staff must prepare an annual training plan outlining the courses or activities to be undertaken to meet the CPE hourly requirements described above, to retain professional certification, or to meet staff's professional needs. These plans are approved by senior management. The vast majority of training is conducted internally. The Office maintains a record of each staff member's training in accordance with Government Auditing Standards.



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## THE AUDITOR GENERAL'S OFFICE – 2010 BUDGET REQUEST

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### 2010 Budget Request

Details relating to the 2010 budget request for the Auditor General's Office are as follows:

|                                  | <b>2010<br/>Budget<br/>Request</b> | <b>2009<br/>Approved<br/>Budget</b> | <b>2009<br/>Projected<br/>Actual</b> |
|----------------------------------|------------------------------------|-------------------------------------|--------------------------------------|
| Salaries                         | 3,140,854                          | 3,039,286                           | 3,062,632                            |
| Employee Benefits                | 746,613                            | 720,467                             | 707,468                              |
| Services, Materials and Supplies | 115,942                            | 115,902                             | 71,243                               |
| Interdepartmental Charges        | 22,072                             | 22,072                              | 22,500                               |
| <b>Sub Total</b>                 | <b>4,025,481</b>                   | <b>3,897,727</b>                    | <b>3,863,843</b>                     |
| External Audit Fees              | 483,755                            | 483,755                             | 483,755                              |
| <b>Total</b>                     | <b>4,509,236</b>                   | <b>4,381,482</b>                    | <b>4,347,598</b>                     |

***Budget request***

The amount of \$4,509,236 is the Auditor General's budget request for 2010. This amount includes \$483,755 relating to external audit fees. The Auditor General has no control over the external audit fees as they are based on a separate contractual agreement with the City's external auditors. The budget represents the Auditor General's analysis of audit resource requirements including the operation of the Fraud and Waste Hotline Program.

***2.9% increase***

The increase in the Auditor General's budget from 2009 to 2010 is 2.9 per cent.

***New part-time administrative support position requested***

The budget request of the Auditor General for 2010 has increased by \$127,753. A portion of this increase, \$43,588, relates to the request for a new part-time administrative support position to assist in addressing the additional administrative workload in the Auditor General's Office resulting from the management of the City's Hotline Program.

The balance of the increase relates to the 2010 salary cost of living allowance, applicable performance increases where appropriate and economic factors. The economic factors are provided to us by the Financial Planning Division

***External audit fees adjustment***

The current two year contract extension for external audit services ends with the audit of the December 31, 2009 financial statements. An RFP is currently in process for a new five year contract. The Auditor General's 2010 budget for external audit fees is currently set at the same amount as for 2009. This is subject to any adjustments pursuant to the new contract. Any requirements in excess of the current budgeted amounts will be funded elsewhere by the City.

***97% of budget is salaries and benefits***

The majority of the Auditor General's 2010 budget request consists of salaries and benefits. If the amount of \$483,755 for external audit fees is excluded from the budget of the Auditor General's Office, the percentage of the salaries and benefits to the total budget is just over 97 per cent.

**Consequence of Decrease in Budget**

***5% budget decrease would result in termination of staff***

The Auditor General's Office currently operates with a staff of 26 professionals and three administrative staff.

To achieve a five per cent operating budget decrease an amount of \$219,074 would have to be adjusted, reducing the 2010 budget target to \$4,162,408. This target is required to be adjusted further by various economic factors as well as cost of living adjustments. Taking these into account, the adjusted target is now \$4,246,574. This amount is below our 2010 request by \$262,662. In order to meet this target, we would have to reduce staff by two and eliminate the request for a part-time administrative staff. There are currently no vacancies in the office and consequently, any reduction in the budget would result in the termination of existing staff.

## The Benchmarking of Audit Costs – Comparisons With Other Municipalities

The Auditor General’s Office has benchmarked its costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States.

**Table 2: Comparison of Audit Costs**

|                               | 2009<br>Municipal<br>Budget<br>(in \$000s) | 2009<br>Audit Costs<br>(in \$000s) | Audit Costs<br>as a % of<br>Municipal<br>Budget |
|-------------------------------|--|------------------------------------|---|
|                               | \$   | \$                                 | %   |
| <b>Canadian Jurisdictions</b> |  |                                    |   |
| <b>City of Toronto</b>        | <b>8,700,000</b>                           | <b>6,988</b>                       | <b>0.08</b>                                     |
| Montreal                      | <b>4,071,000</b>                           | <b>4,492</b>                       | <b>0.11</b>                                     |
| Calgary                       | <b>2,416,000</b>                           | <b>2,285</b>                       | <b>0.10</b>                                     |
| City of Ottawa                | <b>2,414,000</b>                           | <b>1,940</b>                       | <b>0.08</b>                                     |
| Edmonton                      | <b>1,594,000</b>                           | <b>1,936</b>                       | <b>0.12</b>                                     |
| Vancouver                     | <b>857,000</b>                             | <b>750</b>                         | <b>0.09</b>                                     |
| Quebec City                   | <b>981,000</b>                             | <b>1,384</b>                       | <b>0.14</b>                                     |
| <b>U.S. Jurisdictions</b>     |  |                                    |   |
| Chicago                       | <b>7,898,000</b>                           | <b>5,864</b>                       | <b>0.07</b>                                     |
| San Francisco                 | <b>6,531,000</b>                           | <b>7,633</b>                       | <b>0.12</b>                                     |
| Phoenix                       | <b>3,735,800</b>                           | <b>3,547</b>                       | <b>0.10</b>                                     |
| San Jose                      | <b>1,050,000</b>                           | <b>2,642</b>                       | <b>0.25</b>                                     |
| Philadelphia                  | <b>7,389,000</b>                           | <b>8,255</b>                       | <b>0.11</b>                                     |

In determining the total audit costs of the City, costs of the Internal Audit Division, and the audit functions at the TTC and the Toronto Police Service have been added to the costs of the Auditor General's Office.

***Difficult to make exact comparisons***

It is difficult to make specific comparisons with other municipalities due to a number of factors such as:

- The budgets of other municipalities include an Auditor General function only. There may be other internal audit entities in these organizations which have not been accounted for. We are aware that Quebec City for example, has a separate internal audit function.
- The City of Toronto operates a Fraud and Waste Hotline, whereas a number of other municipalities do not (e.g., Montreal, Quebec City and Vancouver).

***Audit costs significantly below other municipalities***

In spite of the difficulties in comparing audit budgets, it is clear that the budget of the Auditor General's Office is not out of line with other major cities throughout Canada and the US. On the contrary when compared with other municipalities, the budget of the Auditor General's Office is at the low end of the scale.

***Mayor's Fiscal Review Panel recommendations***

The Mayor's Fiscal Review Panel report was issued on February 21, 2008. Recommendations in this report speak to the strengthening of the Auditor General's Office. The report recommends that "*the City should increase the budget for the Auditor General's Office to enable it to complete more efficiency audits.*"

***Recognize the financial constraints***

We recognize the financial restraints under which the City operates and over the past number of years our budget requests have reflected this reality. Nevertheless, it is important to recognize that the audit work conducted by this office is not at a level commensurate with the size and complexity of the City. In order to address the audit projects which have been deferred as well as to accommodate the increased volume of complaints received by the Fraud and Waste Hotline, it is estimated that additional resources in the range of \$300,000 would be required.

Our annual work plan is based on the resources available. There are a significant number of audits which continue to be deferred because of limited resources. Details relating to these audits are included in our 2010 Audit Work Plan report. In addition, the Auditor General is now at the stage where audits previously conducted over the years should be the focus of a second review. Resources are not available to allow for this.

## **Predetermined Audit Costs in Certain Jurisdictions**

### ***Quebec legislation mandates allocation of audit fees as a percentage of the total City budget***

Of significance in the comparison of audit costs between municipalities is current legislation in Quebec. The Quebec Cities and Towns Act in Section 107.5 requires that, “*The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor’s duties.*” The amount legislated for audit services in municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the equivalent percentage of 0.11 per cent was applied to the City of Toronto, the City’s total audit budget would be in the range of \$9 million.

### ***Quebec model would increase City audit budget by over \$2 million***

Using the Quebec model as a guide, it would not be unreasonable to suggest that the audit budget at the City should increase by over \$2 million. We are not suggesting that such an increase be considered without significant additional deliberation or analysis, nor are we suggesting that these additional resources be exclusively allocated to the Auditor General’s Office. For example, any increase to the audit budget at the City should also consider the needs of the audit function operating out of the City Manager’s Office. In our view and on a preliminary basis, we would suggest that the internal audit functions at the TTC and the Toronto Police Service are adequately resourced.

The above analysis does, however, demonstrate that audit resources at the City are not excessive and likely should be increased to a level commensurate with the size of the City.

## Additional Workload Pressures

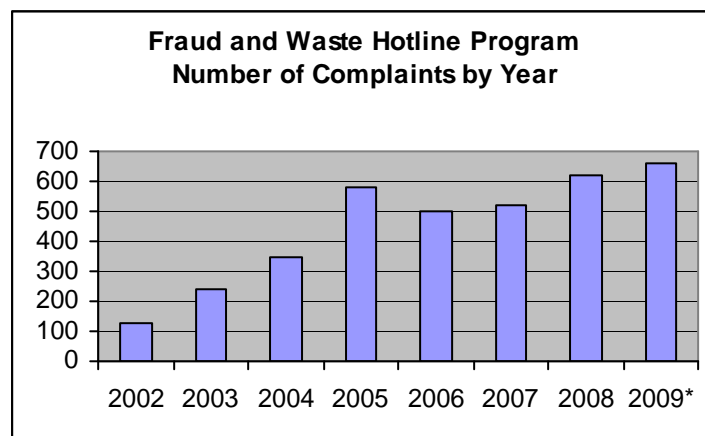
### *Annual follow-up of audit recommendations*

An extremely important component of any audit process is the requirement that there be a follow-up of audit recommendations made. There is little benefit to an audit unless recommendations resulting from the audit are implemented. In order to address this issue, we have set up a formal process to follow-up on all previously issued audit reports. The resources devoted to this process have been significant. However, such a process will enable us to ensure that all previously approved recommendations have been implemented.

### *Increase in Fraud and Waste Hotline activity*

In addition, the activity relating to the Fraud and Waste Hotline has increased significantly since its inception. It was recognized and acknowledged that during its initial phase the Hotline could be accommodated with existing resources until the extent of activity was determined.

The following graph illustrates the increase in complaint volume in the fraud and waste hotline program since its inception.



\* number of complaints estimated to year end.

### *Need for part-time administrative support position*

In 2006, with the approval of Council one professional audit position was added to accommodate the increased workload created by the Fraud and Waste Hotline. We continually monitor the impact of the Fraud and Waste Hotline Program on our total audit resources. As a result, the need for a part-time administrative support position is required to assist with the increased administrative workload of the City's Hotline Program.

## **Benefits of an Effective Audit Process**

An effective audit process can result in a significant payback to the City in terms of:

- increased revenues
- reduced costs
- improved internal controls
- operational efficiencies
- enhanced protection of City assets.

The costs savings generated by the Auditor General's Office since amalgamation, while difficult to quantify precisely, have been significant and far outweigh the costs to operate the office. Many of the savings generated are not one-time savings as in many cases they represent ongoing annual savings.

***Cost savings over last five years are in the range of \$91 million***

In a report to the Audit Committee dated January 19, 2009 entitled "Annual Report - Auditor General's Office - Benefits to the City of Toronto", it was reported to Audit Committee that the actual potential net savings for the period 2004 to 2008 were in the range of \$91 million. At the request of the Audit Committee, this report will be updated and tabled with the Committee during the first quarter of 2010.

## **The Impact of the *City of Toronto Act***

The *City of Toronto Act* has had an impact on the Auditor General's ability to audit certain of the City's local boards. Prior to the *Act*, the Auditor General had access to all records at each of the City's local boards and was able to conduct audit work based on his analysis of risk.

***City of Toronto  
Act limits  
Auditor  
General's  
authority to audit  
"restricted" local  
boards***

The *Act* states, in Section 178 (3) under Powers and Duties of the Auditor General's Office, that "*the Auditor General may exercise the powers and shall perform the duties as may be assigned to him or her by city council in respect of the City, its local boards (restricted definition) and such city controlled corporations and grant recipients as city council may specify.*" Under the *Act*, "local boards (restricted definition)" is defined as a local board other than the Toronto Police Services Board, the Toronto Public Library and the Board of Health. In essence, the Auditor General of the City of Toronto, under the new legislation, has no authority to access records or conduct audit work at those "restricted" local boards.

***Auditor General  
working with  
"restricted" local  
boards***

The Auditor General met with both the City Manager and the City Solicitor to further address this matter. The City Solicitor has advised that Council may extend the mandate of the Auditor General to include the audits of the "restricted" local boards based upon specific requests of these boards. City Council subsequently approved that the Auditor General, at his discretion, may undertake financial (excluding attest) compliance and performance audits of the "restricted" local boards upon request by the boards. This arrangement has worked satisfactorily, particularly, in the case of the Toronto Police Services Board. Since the *Act*, a significant amount of work has been conducted at the Toronto Police Service.

It is anticipated that the Province of Ontario will be requested to amend the *Act* to include the "restricted" boards in those entities subject to audit by the Auditor General.

**The Statutory Accountability Officers - Working Together With the Integrity Commissioner, the Lobbyist Registrar and the Ombudsman**

Over the past number of years, there has been ongoing communication between the Auditor General and the Integrity Commissioner. Regular meetings were held to discuss issues or concerns and when appropriate, specific complaints were referred to the responsible official. In his final report to the City Council, the former Integrity Commissioner stated that "*Within the City, I continued to have an excellent relationship with Jeffrey Griffiths, the Auditor General*". The Auditor General has ongoing dialogue with the current Integrity Commissioner.

Ongoing meetings have also been held with the Lobbyist Registrar and the Ombudsman to discuss areas of interest and concern.



## **A Policy Framework for Toronto's Accountability Officers**

On March 20, 2009, City Council approved a report entitled "A Policy Framework for Toronto Accountability Officers". The report contains a number of Guiding Principles as follows:

- The offices will be established by bylaw in Toronto's Municipal Code.
- The officers are appointed by and have direct accountability to City Council.
- The appointment, renewal, and removal processes will be defined and transparent.
- The officers will have fixed term of office.
- The officers will have budgetary, operational, and staffing independence.

### ***Best practices review to allocate budget for accountability functions***

One of the recommendations contained in the report directs that "*City Council authorize the City Manager and Deputy City Manager and Chief Financial Officer, in consultation with the accountability officers, to review and research best practices respecting setting aside a percentage of the City's budget for Toronto's accountability functions and report back to Executive Committee*".

It is anticipated that this review will be conducted in 2010.

## **The Auditor General's Annual Audit Work Plan**

The 2010 Audit Work Plan of the Auditor General is being presented to Audit Committee concurrent with this report.

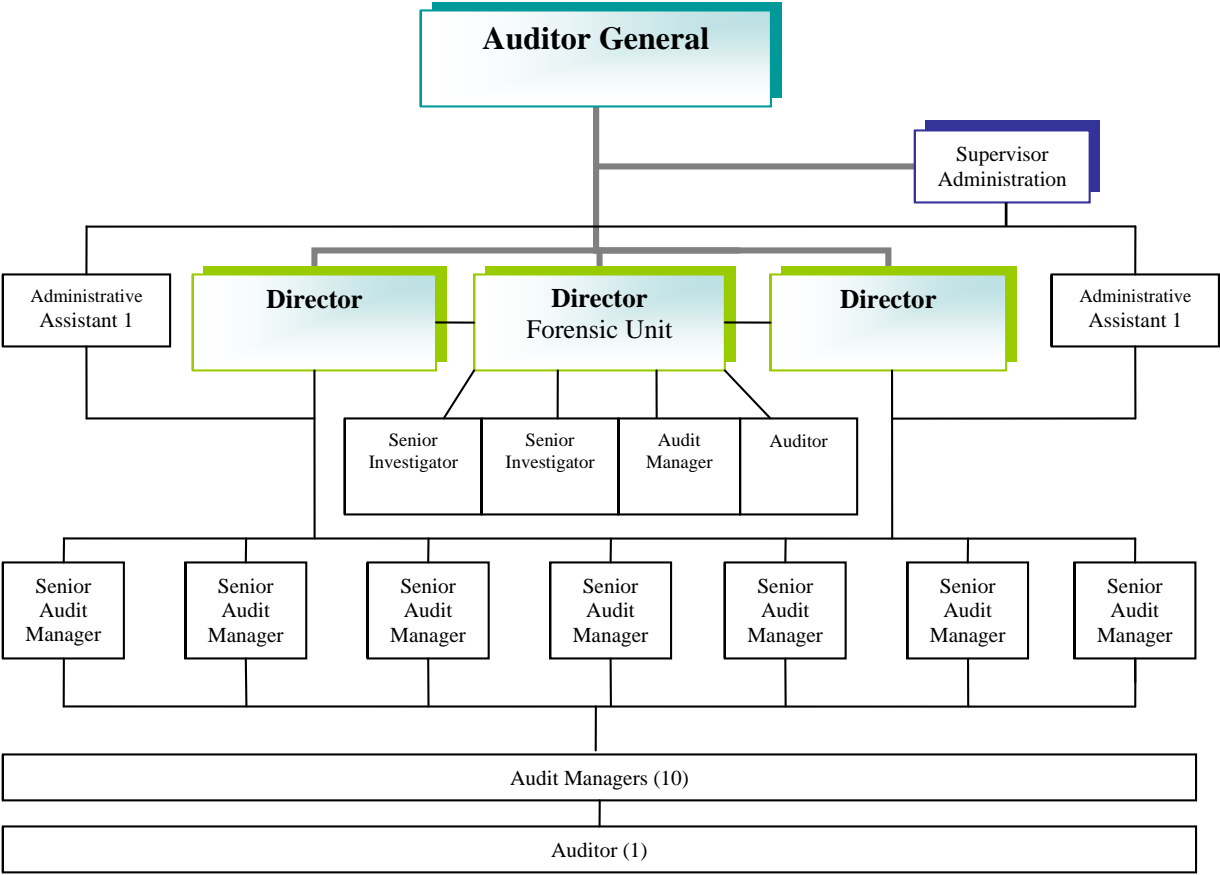
### **Summary**

The budget to operate the Auditor General's Office for 2010 is projected to be \$4,509,236. Included in this amount are audit fees paid to an external accounting firm for the annual statutory audit of the financial statements of the City.

As indicated previously, 97 per cent of the Auditor General's budget request consists of salaries and benefits. Reducing the Auditor General's 2009 approved budget by five per cent would require decreasing staff by two persons and the elimination proposed part-time administrative position.

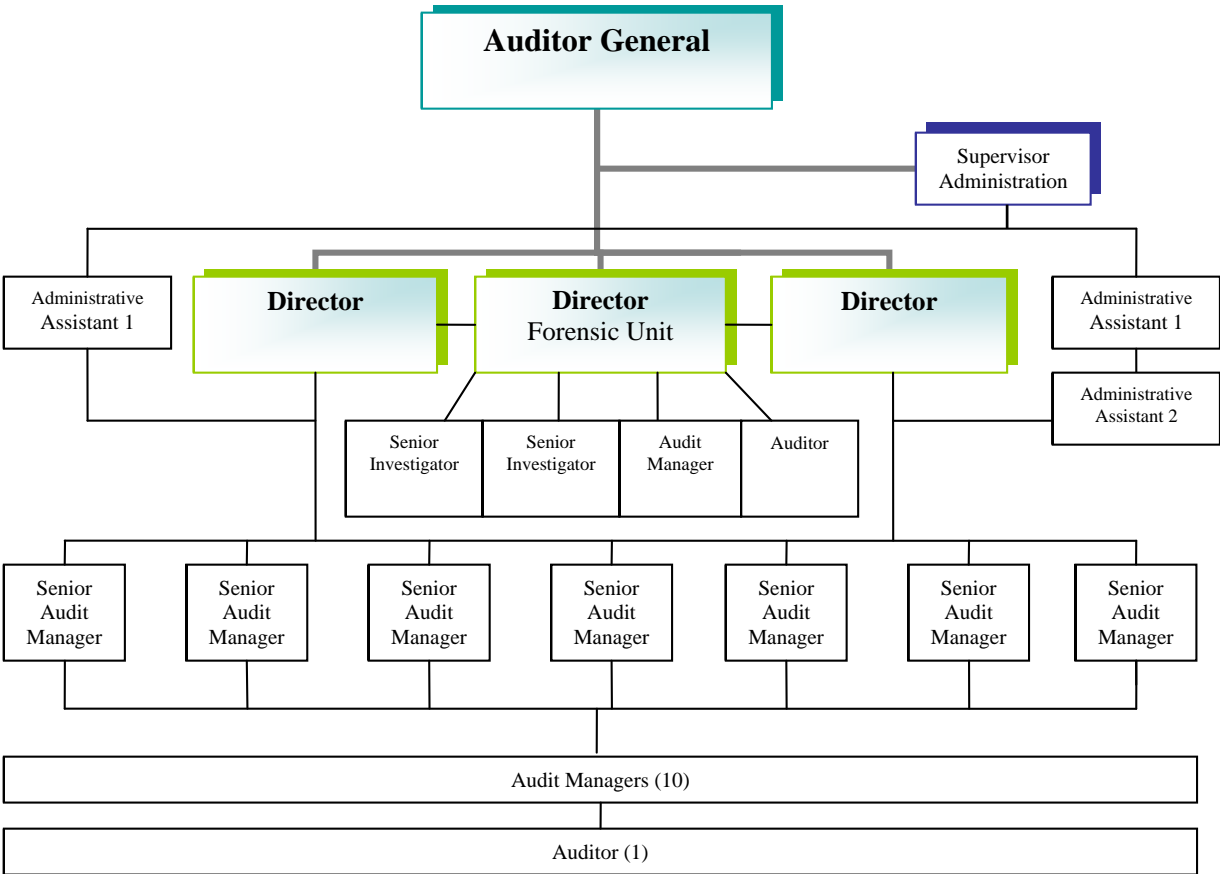
**Exhibit 1**

**THE AUDITOR GENERAL’S OFFICE –  
ORGANIZATIONAL CHART AND WORKFORCE  
as at December 31, 2009**



**THE AUDITOR GENERAL’S OFFICE –  
ORGANIZATIONAL CHART AND WORKFORCE**

**Proposed as at December 31, 2010**



# Association of Local Government Auditors



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February 27, 2009

Jeffrey Griffiths  
Auditor General  
City of Toronto  
Auditor General's Office

Dear Mr. Griffiths,

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 2006 through December 2008. 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 if 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. 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 Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period January 2006 through December 2008.

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

Sincerely,

Alan R. Gutowski  
City of Albuquerque, NM

Renata Khoshroo  
City of San Jose, CA

Antonio Bianchi  
The Regional  
Municipality of York

# Association of Local Government Auditors



## OFFICERS

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Toronto, Ontario, Canada

February 27, 2009

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Dear Mr. Griffiths,

### *Past President*

George McGowan  
Manager, Audit Services  
and Management Support  
Orlando, FL

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 2006 through December 2008 and issued our report thereon dated February 27, 2009. We are issuing this companion letter to offer certain observations and one suggestion stemming from our peer review.

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

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Chesapeake, VA

- The entire audit team has great synergy.
- Your office's 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.
- The staff is highly qualified and diverse with a broad range of subject area expertise.
- Your approach to the electronic automation of audit recommendation follow-up is an innovative and excellent idea, and makes the process much more efficient. Perhaps it is something you can share at an annual ALGA conference.
- The internal committees that focus on quality assurance and critical issues are an excellent idea.
- Your system for electronically distributing reports minimizes paper consumption and is environmentally friendly.
- The Administrative Support Staff is gracious and efficient.

## MEMBER SERVICES

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

- In one of the six engagements we examined neither the survey checklist nor the audit program addressed 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.

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

Sincerely,



Alan R. Gutowski  
City of Albuquerque, NM



Renata Khoshroo  
City of San Jose, CA



Antonio Bianchi  
The Regional  
Municipality of York



Jeffrey Griffiths, C.A., C.F.E.  
Auditor General

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March 10, 2009

Alan Gutowski  
Audit Manager  
Office of Internal Audit  
City of Albuquerque  
P.O. Box 1293  
Albuquerque, New Mexico 87103

Dear Mr. Gutowski,

Thank you for participating in the External Quality Control 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 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 the quality of our policies, procedures, working papers, staff qualifications and diversity. We also appreciate your recognition of our audit recommendation follow-up system.

We also appreciate your observation related to the engagement where audit planning documentation should have included our consideration of fraud risk. As indicated in your management letter comment, you 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. For the record, our assessment of fraud was not included in the documentation because of a timing issue related to the internal release of revised planning templates during our transition from the 2003 *Government Auditing Standards* to the 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.

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, Renata Khoshroo and Antonio Bianchi for taking the time to review our operations, and for your participation in the ALGA peer review program.

Sincerely,

Jeffrey Griffiths, CA, CFE  
Auditor General  
Toronto, ON