



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Auditor General's Office External Peer Review – 2012

Date:	June 12, 2012
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

Government Auditing Standards state that “Audit organizations performing audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS) must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.” The purpose of this report is to provide the Audit Committee with information regarding the Auditor General’s proposed external peer review.

RECOMMENDATION

The Auditor General recommends that:

1. This report be forwarded to City Council for information.

Financial Impact

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 external peer review. The peer review will be conducted by the Association of Local Government Auditors. Reasonable expenses are not expected to exceed \$4,000. There will be no payment for the value of each peer review team member’s time. Instead, staff from the Auditor General’s Office are requested to reciprocate by participating as a team member in the peer review of another local government organization. During 2012, a staff member from the Auditor General’s Office participated as a team leader in the peer review of the City of Baltimore. This participation was at no incremental cost to the City.

The upcoming peer review is the third such review for the Auditor General's Office. 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.

DECISION HISTORY

The external peer review will be performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA). ALGA is a North American organization of local government auditors and includes a number of organizations that have undergone an external peer review. 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. A second external peer review was conducted in February 2009.

In both previous external reviews, the Auditor General received an "unqualified" opinion. An "unqualified" opinion is the highest class of opinion report obtainable and indicates that audit work conducted by the Auditor General's Office is performed in accordance with generally accepted government auditing standards.

Both of the previous external 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>

The ALGA external peer review will result in significant benefits to both the Auditor General's Office and the City. A few of the anticipated benefits expected 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 question, "Who audits the auditor?" As well, as audit work is occasionally 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.

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 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

In addition to the above, the Auditor General is subject to an External Peer Review conducted by a third party independent organization.

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 independently 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.

Peer Review Team Member Composition

Government Auditing Standards provide specific requirements related to the qualifications and independence of the individuals selected to participate on peer review teams. Standards require that peer review team members meet the following criteria:

- a. The review team collectively has current knowledge of GAGAS and government auditing.
- b. The organization conducting the peer review and individual review team members are independent of the audit organization being reviewed, its staff, and the audits selected for the peer review.
- c. The review team collectively has sufficient knowledge of how to perform a peer review. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Having personnel on the peer review team with prior experience on a peer review or internal inspection team is desirable.”

The Association of Local Government Auditors (ALGA) has thus far selected one of the two members who will serve on the peer review team. A brief description of the qualifications and experience of the selected member follows:

Bill Greene, BSc, MPA, CFE

Bill Greene is the City Auditor for the City of Phoenix, Arizona. Mr. Greene manages and directs the City's internal audit department which conducts audits, analysis and investigations. Phoenix is the sixth largest city in the United States and has a population of almost 1.5 million, 14,000 municipal employees and an annual operating budget of \$3.4 billion.

Mr. Greene is currently on the ALGA Board of Directors as President-Elect. Mr. Greene previously served ALGA as Treasurer and Board Member-at-Large.

Prior to his appointment to the ALGA Board, Mr. Greene was a member of the ALGA Peer Review Committee, including four years as a Peer Review Coordinator. He has conducted and coordinated numerous peer reviews at various local government jurisdictions and is considered a subject matter expert on the topic of peer review. As such, Mr. Greene is a frequent speaker and training instructor on peer review.

Mr. Greene participated in the development of ALGA's *Peer Review Guide* for assessing compliance with *The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing* and several revisions of the *ALGA Peer Review Guide for Government Auditing Standards*.

Mr. Greene joined the City of Phoenix, City Auditor Department in 1989. He holds a Bachelor of Science in Finance and Master of Public Administration degrees from Arizona State University and is a Certified Fraud Examiner.

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 August 2012. Audits conducted during the period beginning January 1, 2009 through December 31, 2011 will be eligible for review. This period is known as the "measurement period." Peer reviews are required to include a three-year term from the end of the previous measurement period. Upon completion of the external peer review process, a final report will be provided to the Audit Committee and City Council.

CONTACT

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SIGNATURE

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