



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

## Auditor General's External Quality Assurance Review

<b>Date:</b>	September 21, 2012
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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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 third 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

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**The Auditor General recommends that:**

1. City Council receive this report for information.

#### **Financial Impact**

The recommendations in this report have no financial impact.

## **DECISION HISTORY**

In July 2012, the Audit Committee received a report from the Auditor General regarding the August 2012 external quality assurance review of the Auditor General's Office. This is the third time the Auditor General's Office has undergone an external quality assurance review. The results of our second review were reported to the Audit Committee and City Council in March 2009.

## **ISSUE 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."

In accordance with the by-law governing the Auditor General's Office, the Auditor General's Office undergoes an annual review of expenditures. However, an evaluation of audit work is not performed during this annual review. Compliance with Generally Accepted Government Auditing Standards is an important component of audit quality and is essential 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. Offers were made to the Audit Committee by the Auditor General to meet with members of the Peer Review Team.

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

Reciprocal reviews are strictly prohibited by the Association of Local Government Auditors. Audit organizations are not permitted to provide staff members from their organizations to participate on reviews of audit organizations from which review team members are employed.

## **COMMENTS**

### **Reporting External Quality Assurance Review Results**

The on-site portion of the Auditor General's peer review took place during the week of August 20, 2012. Following the week-long on-site review process, a written opinion letter and management letter were issued to the Auditor General communicating the results of the review and are attached to this report as Appendix 1 and 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 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 suggestions for improvement.

The following excerpt from the external quality assurance team's report identifies the areas where they believe the Auditor General's Office excels:

- *“The extensive Risk Assessment process the Office conducts to develop the five-year risk assessment and annual audit plans. The process includes: detailed analyses of the major City divisions, Agencies, Commissions, and Corporations and an extensive use of criteria and overall consideration of past audit work.*

- *The audit staff has a strong set of certifications and qualifications and tackles complex audit topics.*
- *The organization of audit work papers and well-developed quality control process including checklists and supervisory review at various steps help ensure audit standards are followed and audit quality is achieved.*
- *The Issue Development Worksheet is a good tool to develop the report issues and be more efficient in the report writing phase.*
- *Audit planning steps culminating with the issuance of a Terms of Reference letter is an effective way to communicate the results of the preliminary assessment, the audit objectives, scope and methodology to management staff and assist in the development of the fieldwork audit program.*
- *The administrative staff were very efficient and gracious, and we observed how their organizational skills benefited your audit work.”*

The review team also provided the following suggestion to enhance the Auditor General’s demonstrated adherence to Government Auditing Standards:

*“Government Auditing Standards 1.25 states that performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, and facilitate decision making. Generally, when an audit organization reports information without following Generally Accepted Government Auditing Standards, the work product is categorized as nonaudit instead of a performance audit.*

*While reviewing the various engagements and work performed in your Office, we noted 1 out of 50 reports was classified as administrative in nature when it should probably have been classified as an audit or nonaudit. This written report included analytics and audit procedures and was provided to management and Council to assist in reducing costs and facilitating decision making and was posted to the Office website for public use.*

*We suggest that for similar future projects the Office evaluate the classification of this work (i.e. either performance audit or nonaudit services) and apply the appropriate standards.”*

As stated in our written response to the review team, we appreciate the additional observation and suggestion made to enhance our operations. We agree with the suggestion provided in their report and will ensure the recommendation is fully implemented.

## **CONTACT**

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## **SIGNATURE**

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Jeff Griffiths, Auditor General

## **ATTACHMENTS**

- Appendix 1: Opinion Letter from the Association of Local Government Auditors, dated August 24, 2012
- Appendix 2: Management Letter from the Association of Local Government Auditors, dated August 24, 2012
- Appendix 3: Auditor General's Response to the Management Letter, August 24, 2012