

Auditor General's Office External Peer Review - 2018

Date: June 28, 2018
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

Chapter 3 of the Municipal Code requires that the *“Auditor General shall undergo an external peer review once every three years to ensure compliance with government auditing standards”* and furthermore, *“the results of the external peer review shall be reported to Council through the Audit Committee”*.

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.

The 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?”* Furthermore, this review process also provides an opportunity for the Auditor General's Office to learn of best practices and ideas from other similar audit offices.

The purpose of this report is to provide the Audit Committee with information regarding the Auditor General's upcoming external peer review.

RECOMMENDATIONS

The Auditor General recommends that:

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

FINANCIAL IMPACT

The Association of Local Government Auditors will be conducting the peer review. Reasonable expenses incurred by members of the peer review team (airfare, hotel and

meal expenses) will be paid out of the Auditor General's Office budget upon completion of the external peer review. These expenses are not expected to exceed \$10,000.

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 2016, a staff member from the Auditor General's Office participated as a team member in the peer review of the City of Winnipeg Audit Department. This participation was at no incremental cost to the City.

DECISION HISTORY

The Auditor General's Office follows Generally Accepted Government Auditing Standards (GAGAS) for all audits. These standards require that *"Audit organizations performing audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years"*.

As noted in her 2018 Audit Work Plan, the Auditor General will undergo an external peer review of her office this year. The upcoming peer review will be the fifth such review for the Auditor General's Office. The work plan is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-107812.pdf>

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. Since then, four additional external peer reviews have been conducted and the Auditor General received an "unqualified" opinion in all these reviews. 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.

The results of all four previous external peer 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>
- <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.5>
- <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>

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's Office is subject to an external peer review conducted by a third party independent organization. In accordance with Government Auditing Standards and Chapter 3 of the Municipal Code, the Auditor General's Office will undergo its fifth external peer review in 2018. This external peer review will be performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA).

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. These standards require that peer review team members meet the following criteria:

- The review team collectively has current knowledge of Generally Accepted Government Auditing Standards and government auditing.
- 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.
- 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.

Reporting Peer Review Results

A written report is prepared by the independent reviewers communicating the results of the peer review. 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 tentatively scheduled in the fall of 2018. Upon completion of the external peer review process, a final report will be provided to the Audit Committee and City Council.

Peer reviews are required to include a three-year term from the end of the previous measurement period. This period is known as the "measurement period". All audits conducted during the period beginning January 1, 2015 through December 31, 2017 will be eligible for review.

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SIGNATURE

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