

Results of 2021 External Quality Control Review

Date: November 25, 2022

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

This report provides the results of the External Quality Control Review performed by the Association of Local Government Auditors (ALGA) for the period January 1, 2018 through December 31, 2020. The Auditor General's Office has received the highest rating, an unqualified "pass" opinion, on its peer review – the sixth time the Office has received this rating.

The peer review team found that the *“City of Toronto Auditor General's control system was adequately designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards and applicable legal and regulatory requirements for audits during the period from January 1, 2018, through December 31, 2020.”* It is also worth noting that the Auditor General's Office did not receive a management letter with suggestions for improvement from the peer review team during this review.

Compliance with Government Auditing Standards is an important component of audit quality and is critical in maintaining credibility with City Council, management and taxpayers.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The recommendation in this report has no financial impact.

DECISION HISTORY

An external peer review answers the question, “Who audits the auditor?”

The Auditor General’s Office follows Generally Accepted Government Auditing Standards (GAGAS) which 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*”.

In February 2006, the City of Toronto Auditor General’s Office was the first Canadian local government audit organization to have a review of this nature. Since then, five additional external peer reviews have been conducted. The Auditor General’s Office received an unqualified “pass” opinion in each of 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 five previous external peer reviews are posted on the City website at:

- 2006: <https://www.toronto.ca/legdocs/2006/agendas/committees/au/au060615/it001.pdf>
- 2009: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.AU11.3>
- 2012: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.5>
- 2015: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>
- 2018: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU1.11>

In July 2021, the Auditor General advised the Audit Committee that an external peer review of the Office would be performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA), the sixth such review for the Auditor General’s Office. ALGA is a North American organization of local government auditors and includes a number of organizations that have undergone an external peer review.

Additionally, the Auditor General advised that ALGA had been granted the authority, in accordance with Government Auditing Standards, to extend the time frame for peer reviews for any audit organization participating in its peer review program whose peer review were affected by the challenges and delays caused by the COVID-19 global pandemic. Consistent with other audit organizations who participate in the ALGA peer review program, ALGA allowed for an extended time frame for the peer review of the Auditor General’s Office to be completed. In July 2021, City Council authorized a one-time exemption from the Municipal Code requirement that the Auditor General undergo an external peer review once every three years, so that the external peer review originally due in 2021 could be completed by the end of 2022.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU9.18>

COMMENTS

The Auditor General's Office 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 City 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

<https://www.toronto.ca/legdocs/mmis/2009/ex/bgrd/backgroundfile-19953.pdf>

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

https://www.toronto.ca/legdocs/municode/1184_003.pdf

The external peer review of the Auditor General's Office is performed by independent reviewers selected by a committee of the Association of Local Government Auditors (ALGA).

Compliance with Generally Accepted Government Auditing Standards is an important component of audit quality. Adherence with these Standards, including requirements for external peer reviews, benefits both the Office and the City by:

- Strengthening audit quality, consistency, uniformity and reliability
- Contributing to professional development
- Enhancing professional credibility
- Strengthening public/management relations

Nature of External Peer Review

The external peer review process looks at the Auditor General's internal quality control system. The independent reviewers' procedures include:

- Reviewing the Office's written policies and procedures
- Reviewing internal quality control monitoring procedures
- Reviewing a sample of audit engagements and working papers (including documentation of evidence to support reported findings and conclusions)
- Reviewing documents related to independence, training, and development of staff
- Reviewing documents related to staff experience, education, and the hiring process
- Interviewing professional staff at various levels within the Auditor General's Office, as well as a member of the Audit Committee to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Reporting External Peer Review Results

Upon completion of their review of the Auditor General's internal quality control system, including a cross section of work performed by the Auditor General's Office, the peer reviewers provide a written opinion letter to the Auditor General communicating the overall results of the review.

The peer review team found that the *“City of Toronto Auditor General's control system was adequately designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards and applicable legal and regulatory requirements for audits during the period from January 1, 2018, through December 31, 2020.”*

The Auditor General's Office has received the highest rating, an unqualified "pass" opinion, on its peer review – the sixth time the Office has received this rating.

The opinion letter, together with the Auditor General's written response, is included as Attachment 1 to this report.

During the review, the peer review team also provided verbal comments to recognize areas where the Auditor General's Office excels, including the comprehensive nature of the Office's written policies and procedures which supports staff performing audits in accordance with Government Auditing Standards, as well as the successful implementation of our electronic audit working paper system.

It is also worth noting that the Auditor General's Office did not receive a management letter with suggestions for improvement from the peer review team during this review. Nonetheless, we will continue enhancing our processes where and when opportunities arise to ensure the highest quality in our audits.

CONTACT

Ina Chan, Deputy Auditor General, Auditor General's Office
Tel: 416-392-8472; Email: Ina.Chan@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Association of Local Government Auditors' Opinion Letter dated October 20, 2022 and the Auditor General's Response dated October 20, 2022