

4. Audit Cost

Another measure of the efficiency of audit work is the actual cost of an audit. In computing total actual cost, we allocate all direct and indirect costs of the Auditor General's Office.

G. FRAUD AND WASTE HOTLINE PROGRAM

It is important to pursue any allegations made by citizens, City employees or others regarding waste, mismanagement or potential fraud in City programs. When audit staff become aware of comments or concerns about operations or employees they should encourage the individual to further discuss the issue. When allegations of potential fraud and abuse come to the attention of the auditor, refer to Section III, *Managing the Audit Process - Fraud and Abuse*.

Additional information is available in the office files regarding the City of Toronto's Fraud and Waste Hotline Program and also on the City's Web site:

http://www.toronto.ca/audit/fraud_hot.htm

SECTION II – ACHIEVING AUDIT QUALITY

The Auditor General's Office is committed to achieving a high level of audit quality. Audit quality is achieved through adherence to professional auditing standards and through proper training and supervision of audit staff. This section of the manual presents the standards and procedures adopted to help ensure a consistently high level of audit quality.

A. GOVERNMENT AUDITING STANDARDS

Professional standards for conducting audits in government have been issued by the Comptroller General of the United States in *Government Auditing Standards* (GAS). These standards relate to the scope and quality of audit work and the characteristics of professional and meaningful audit reports.

The Auditor General's Office has adopted *Government Auditing Standards* promulgated by the U.S. Government Accountability Office (GAO) in all of our audit work. Each staff member has access to *Government Auditing Standards* (www.gao.gov) and is responsible for becoming familiar with and adhering to its requirements.

In October 1991, The Association of Local Government Auditors (ALGA) published a guide to help local government auditors meet the requirements of *Government Auditing Standards*. The *ALGA Peer Review Guide* is available at <http://ky-alga.civicplus.com/index.aspx> and has been incorporated in this

Office's audit process to help ensure that audit work conforms with *Government Auditing Standards*.

B. INDEPENDENCE

Government Auditing Standards state:

"3.02 *In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent*".

Government Auditing Standards provide additional guidance on aspects of independence that should be considered when considering undertaking an audit.

In 3.03 the Standards state the following:

"3.03 *Independence comprises:*

a. *Independence of Mind*

The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

b. *Independence in Appearance*

The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised."

If there is a threat to independence of mind or independence of appearance on an audit, the Auditor General's Office will attempt to remove the threat, decline to perform the work, or in those situations in which the auditor cannot decline to perform the work, the threat should be disclosed in the scope section of the written audit report and modify the GAGAS compliance statement.

According to *Government Auditing Standards* (3.05) auditors should be independent from an audited entity during:

- a.** any period of time that falls within the period covered by the financial statements or subject matter of the audit, and
- b.** the period of the professional engagement, which begins when the auditors either sign an initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. The

period lasts for the entire duration of the professional relationship (which, for recurring audits, could cover many periods) and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year's audit or a subsequent audit with a similar objective.

Auditors should be familiar with the conceptual framework identified in GAS 3.07 – 3.19. Furthermore auditors should take steps to identify threats to independence, evaluate their significance, and determine if identified threats to independence have been eliminated or are at an acceptable level. Safeguards should be applied in accordance with GAS and documented (3.08, 3.17, 3.20-3.23, 3.24, and 3.59).

In evaluating the categories of threats to independence auditors should examine the threats to independence defined in GAS 3.14. These include the following:

- Self-interest
- Self-review
- Bias
- Familiarity
- Undue influence
- Management participation
- Structural threats

Declining or Terminating an Audit

Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress (3.25).

Evaluating the Impacts of Threats after Report Issuance

If a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other

known users, so that they do not continue to rely on findings or conclusions that were impacted by the threat to independence.

If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions (3.26)

To help ensure that staff assigned to audits are free from potential threats to independence, the Auditor General and auditors assigned to a project sign the Statement of Independence and Conflict of Interest ([Form 1](#)). (GAS 3.02)

The Office and auditors may encounter many different circumstances or combination of circumstances that could create a personal impairment. Therefore, it is impossible to identify every situation that could result in a personal impairment. Accordingly, the Auditor General's Office includes as part of their internal quality control system requirements to identify threats to independence and assure compliance with GAS independence requirements (GAS 3.02). When circumstances arise that result in questioning whether or not a threat to independence arises, GAS 3.02 – 3.26 should be consulted. Where GAS is not sufficient to resolve the issue in a timely manner, representatives from ALGA and/or the Government Accountability Office (GAO) should be contacted to assist in evaluating the circumstance.

Other issues and practices related to the Auditor General Office's compliance with independence provisions addressed in GAS include:

Communicating the policies and procedures and ensuring that auditors understand the requirements by providing training or through other means such as auditors periodically acknowledging their understanding (GAS 3.85-3.86, 3.98e).

The Auditor General requires staff to provide a professional development plan at the beginning of each fiscal year. The plan lists training programs the staff member intends to attend during the year. The AGO organizes certain training programs for all staff. At least one of these programs must contain information related to the (GAS) Standards and, in particular, training related to the GAS independence standards. In addition, audit staff is also strongly encouraged to participate in the ALGA Peer Review Process as a team member or team leader to further enhance their knowledge and understanding of *Government Auditing Standards*.

Monitoring compliance (GAS 3.93): All work performed by the Auditor General's Office complies with GAS and the Office Policies and Procedures. In order to ensure compliance with the audit process, working papers and written

reports are closely supervised by the Auditor General and Directors. In addition to supervisory review, a supervisory log is maintained in the working papers where meetings with the Auditor General, Directors and audit team members are noted by date and subject matter. In addition, the Review of Audit/Engagement Documentation [Form 2](#) is completed at the conclusion of the audit to ensure GAS compliance.

Provision of Nonaudit Services to Management

Auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise to entities at which they perform audits. Providing such nonaudit services may create threats to an auditor's independence (3.33).

Requirements for Performing Nonaudit Services

Before an auditor agrees to provide a nonaudit service to management the Auditor General will determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs (3.34).

A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed. The Auditor General will determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The individual is not required to possess the expertise to perform or reperform the services. The Auditor General or designee will document consideration of management's ability to effectively oversee nonaudit services to be performed (3.34, 3.59).

Before an auditor agrees to provide nonaudit service to management the Auditor General will obtain assurance that management assumes all management responsibilities, will oversee the services, will evaluate the adequacy and results of the service being performed, and will accept responsibility for the results (3.37).

In addition, the Auditor General or designee will document the agreed upon understanding with management or City Council regarding Nonaudit Service Documentation [Form 16](#).

- Objectives of the nonaudit service
- Services to be performed
- Management's acceptance of its responsibilities
- Auditor's responsibilities

- Limitations of the nonaudit service (3.39, 3.59).

Conducting an Audit when Nonaudit work has been previously performed

An auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit should evaluate the impact of those nonaudit services on independence before accepting the audit (3.42).

Disclosing the Nature of Threats to Independence

An auditor required to perform a nonaudit service that could impair his or her independence with respect to a required audit should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS statement accordingly (3.44).

Use of the Conceptual Framework to Evaluate Independence

When performing nonaudit services not specifically prohibited, use the conceptual framework to evaluate independence (3.46). GAS 3.36 provides examples of activities that are considered management responsibilities and would therefore impair independence if performed for an audited entity.

Evaluation of the Management Participation Threat

When preparing separate evaluations about the effectiveness of the internal control system, evaluate the management participation threat and any applied safeguards (3.55).

C. PROFESSIONAL JUDGEMENT

Auditors must use professional judgement in planning and performing audits and attestation engagements and in reporting the results. (GAS 3.60)

Professional judgement includes exercising reasonable care and professional scepticism:

- Professional scepticism is an attitude that includes a questioning mind and a critical assessment of evidence (3.61).
- Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty (3.61).
- Professional judgement represents the application of the collective knowledge, skills, and experience of all personnel involved with an audit (3.63).

- Professional judgement may involve collaboration with other stakeholders, external specialists, and management in the audit organization (3.63).
- Using professional judgement is important in determining the required level of understanding of the audit subject matter and related circumstances (3.66).
- An auditor's consideration of the risk level of each audit, including the risk of arriving at improper conclusions is also important (determining sufficiency and appropriateness of evidence) (3.67)

D. COMPETENCE

Auditor General staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with GAGAS (3.69)

The Auditor General and Directors assess the skills needed to consider whether professional staff have the essential skills that match those necessary to perform a given audit (3.70).

The Auditor General's Office has a process for recruitment, hiring, continuous development, assignment and evaluation of staff to maintain a competent workforce (3.70).

The professional staff assigned to conduct an audit should collectively possess the technical knowledge, skills and experience necessary to be competent for the type of work being performed before beginning work on that audit (3.72).

In the event Auditor General staff become involved in performing financial audits or attestation engagements, they should be knowledgeable of the applicable financial reporting framework being used. Auditors should also be knowledgeable of relevant CICA Standards or other such relevant standards and competent in applying these to the audit work (3.73-3.75).

E. PROFESSIONAL DEVELOPMENT

The Auditor General's Office is committed to ensuring that staff maintain professional proficiency and achieve growth through continuing professional education (CPE) and training.

Generally Accepted *Government Auditing Standards* require auditors involved in planning, directing, performing or reporting on an audit conducted in accordance with GAGAS to complete every 2 years, at least 24 hours of CPE that directly

relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

Auditors involved in any amount of planning, directing or reporting on GAGAS assignments and those auditors not involved in those activities but who charge 20 per cent or more of their time annually to GAGAS audits should obtain an additional 56 hours of CPE (80 total hours every 2 year period) that enhances the auditor's professional proficiency to perform audits.

Professional staff required to have 80 hours should complete at least 20 hours in each year of the 2 year periods. Auditors hired or initially assigned to GAGAS audits after the 2 year CPE period begins should complete a prorated number of CPE hours (3.76)

Each staff member has access to the Government Accountability Office's "Guidance on GAS Requirements for Continuing Professional Education" and is responsible for becoming familiar with and adhering to its requirements. The Auditor General's Office establishes and funds a training program each year to assist staff in meeting these requirements.

External/Internal specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization. CPE requirements only apply to internal specialists who direct or perform audit procedures or who report on GAGAS audits as part of the audit team (3.79-3.81).

Each staff member, in consultation with the Director is required to prepare an annual professional development plan outlining the courses or activities to be taken in order to meet the hourly requirements of CPE described above, for retaining certification, or to meet staff's professional needs and interests. In accordance with GAS the Office helps to ensure each staff member complies with continuing professional education requirements by maintaining a record of training and education, including Certificates of Completion, for each staff member (3.78).

In accordance with corporate policy, staff members are expected to provide a written report to the Auditor General within two weeks after attending a conference/seminar or staff may make a presentation at the next staff meeting outlining the benefits derived from the training session.

Staff should refer to the AGO's Training and Development Policy

[Training Policy January 2009.doc](#)

F. QUALITY CONTROL AND ASSURANCE

The Auditor General's Office performs audits in accordance with GAGAS. As such the Auditor General:

- a. Has established and maintains a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- b. Has obtained an external peer review performed by reviewers independent of the Auditor General's Office at least once every 3 years (3.82, 3.84).

The Auditor General has documented its quality control policies and procedures and communicates policies and procedures to staff regularly through staff meetings, emails communications, presentations and other means as required.

Auditor General professional staff should be familiar with the relationship between AG Policies and Procedures and how they relate to *Government Auditing Standards*. In order to ensure that staff understand the connection between the two, the document used by peer reviewers to assess staff understanding and compliance with relevant internal quality control procedures is included in the Policies and Procedures Manual as [Form 17](#) (3.69-3.70).

The Auditor General documents compliance with its quality control policies and procedures and maintains such documentation for the duration required under City legislative requirements. In general, this is a period of seven years. These records are maintained to enable those performing monitoring procedures and peer review sufficient time to evaluate the extent of the Auditor General's compliance with its' quality control policies and procedures.

In accordance with Government Auditing Standards, the Auditor General's Policies and Procedures collectively address the following:

- Leadership responsibilities for quality within the Auditor General's Office (3.85-3.87)
- Independence, legal and ethical requirements (3.85, 3.88)
- Initiation, acceptance and continuance of audits (3.85-3.89)
- Human Resource processes to reasonably ensure personnel are capable and competent to perform audits in accordance with professional standards, legal and regulatory requirements ((3.85-3.90)
- Audit performance, documentation and reporting processes to reasonably ensure audits are performed and reported in accordance with professional standards, legal and regulatory requirements and policies and procedures for safe custody and retention of audit documentation (3.85, 3.91-3.92)
- Monitoring of quality, including analyses of its monitoring process and identification of systemic issues needing improvement, at least annually (3.85, 3.93-3.95)

Internal quality controls are those procedures established by an organization to ensure that its work is conducted satisfactorily and in accordance with professional standards. In the Auditor General's Office, the directors and the senior audit managers for each project are collectively responsible for audit quality control (GAS 3.85-3.87). Established controls within the Office to help ensure audit quality include:

- (1) *supervisory review*, (2) *independent review*, and (3) a *quality control checklist*.
 1. *Supervisory review* usually consists of continuous review of audit work by the appropriate Senior Audit Manager. Supervisory review includes:
 - (a) attendance at team meetings to monitor audit progress;
 - (b) end-of-survey meetings to discuss potential risk exposures of the organizational unit under review and define areas that warrant audit attention;
 - (c) end-of-fieldwork meetings to review audit results and finalize the draft outline;
 - (d) review of working papers; and
 - (e) review of draft reports.
 2. *Independent review* consists of audit staff not directly involved in the fieldwork of a project reviewing and verifying the validity and accuracy of information presented in the audit report. The reviewer (usually the appropriate Director) traces all facts and statements to supporting working papers to ensure that information is accurate and factual. Reviewer comments should be documented on the Review Sheet ([Form 3](#)). The Director, Senior Audit Manager and Administrative Staff should ensure that the Final Review Checklist ([Form 4](#)) is completed and included in the working paper file prior to filing. The Senior Audit Manager is responsible for ensuring that the Final Review Checklist is complete.
 3. The *quality control checklist* is a review form taken from the *ALGA Peer Review Guide* entitled Review of Audit/Engagement Documentation [Form 2](#). The form is completed for each audit by the audit team and is evaluated by the independent reviewer. The audit team cites working paper references in the "comments" column to demonstrate how compliance was achieved for each auditing standard. The audit team should note those items on the checklist that are not applicable to the particular audit.
 4. The Auditor General's Office conducts an annual review of its policies and procedures and considers staff feedback in order to identify any areas needing improvement and takes corrective action where necessary. (GAS 3.85, 3.93-3.95)

The Auditor General senior management team consists of the Auditor General, two Audit Directors and the Forensic Unit Director. One of the two Audit Directors is responsible for ensuring compliance with relevant standards, policies, procedures and keeping abreast of emerging issues. The other Audit Director is responsible for administering and managing staff professional development matters. These responsibilities are in addition to managing and directing professional staff in relation to their respective audit work. The Forensic Unit Director administers and manages investigations arising from complaints received on the Auditor General's Fraud and Waste Hotline.

G. EXTERNAL QUALITY CONTROL REVIEW

Government Auditing Standards require that audit organizations have an external quality control review at least every three years. An external quality control review, or peer review, consists of a team of external audit professionals assessing the adequacy of the audit organization's internal quality control system and its overall level of compliance with *Government Auditing Standards*.

The Auditor General's Office undergoes an external quality control review every three years by an independent review team using the *ALGA Peer Review Guide*. Reviewers are audit professionals from other local governments or private consultants with local government audit experience. The Auditor General schedules and arranges the review and communicates results to the Audit Committee and City Council. Any deficiencies noted in the review will be addressed and corrected in a timely manner. (GAS 3.82, 3.96)

The Auditor General's Office has completed the Audit Organization Description of Quality Control System *ALGA Peer Review Guide* [Appendix D](#) to document our quality controls and assist in preparing for a peer review.

The form used to evaluate the audit organization's system of internal quality control is the Review of Audit Organization's Quality Control System *ALGA Peer Review Guide* [Appendix E](#).

The latest peer review report of the Auditor General's Office is available to the public on the City's website. (GAS 3.105)

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H. ASSIGNING STAFF AND COMMUNICATING WITH MANAGEMENT

Overall supervision of work in the Auditor General's Office is provided by the Auditor General. However, work assigned to and performed by professional staff is administered and supervised by the appropriate Director and Senior Audit



Manager. The amount of supervision provided varies depending on individual skill levels and the nature of the work (GAS 6.45, 6.55).

Role of the Auditor General and Director(s)

The Auditor General and/or Director(s) is actively involved in the progress of the audit. The Auditor General or Director(s) (as appropriate):

1. Recruit and hire competent staff to assist the organization in maintaining a workforce that has adequate competence. (GAS 3.70)
2. Approve all training requests by audit staff to ensure all audit staff maintain their professional competence through continuing professional education (GAS 3.72, 3.76).
3. Oversee the completion of a periodic risk assessment and develop annual audit plan.
4. Assign staff to the project and ensure the audit team understands the audit objectives and collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment (GAS 6.45)
5. Attend entrance, exit and other major conferences with auditees.
6. Meet with the audit team on a regular basis to ensure that the audit is progressing satisfactorily.
7. Review and approve the survey plan, terms of reference, audit program, scope changes and draft and final reports.
8. Review significant working papers prepared by the audit team.
9. Maintain contact with the City Manager, Deputy City Managers, Deputy City Manager/Chief Financial Officer and appropriate representatives from the entity under review. (GAS 6.47)
10. Liaise with the Audit Committee members and City Councillors. (GAS 6.47)
11. Approve Project Evaluations and chair post project debrief meeting.
12. Administer the annual performance evaluation process of all audit staff.

Role of the Audit Team

The audit team is responsible for conducting all phases of the audit, achieving audit objectives and following office policies and procedures. Members of the audit team are responsible as follows:

1. Senior Audit Managers conduct the periodic risk assessment and provide input to the annual audit work plan.
2. Senior Audit Managers, with input from Audit Managers, assess audit risk and its significance within the context of the audit entity and prepare the

terms of reference which includes audit objectives, scope and methodology.

3. Senior Audit Managers prepare and/or approve Audit Programs ([Form 11](#)) developed by Audit Managers based on the results from the preliminary survey process.
4. Senior Audit Managers are responsible for completing planning and administrative documents, such as the Project Start Letter [Form 5](#), the Audit Planning and Variance Sheet ([Form 6](#)) the Supervisory Log ([Form 7](#)) and the Statement of Independence and Conflict of Interest ([Form 1](#)).
5. Senior Audit Managers are responsible for providing on-the-job training to new staff, assistance for less experienced staff, and sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable standards. (GAS 6.45)
6. Senior Audit Managers are responsible for regularly assessing their efforts to ensure that audit objectives and milestones are addressed as planned.
7. Senior Audit Managers are responsible for reviewing integral working papers to ensure quality and consistency with audit objectives; and the sufficiency and appropriateness of audit evidence.
8. Senior Audit Managers are responsible for briefing the Auditor General and/or Directors on audit progress, significant problems encountered and deviations from the audit program.
9. Senior Audit Managers and/or Audit Managers are responsible for maintaining contact with auditees, including appropriate representatives of management. Auditees are to be informed of audit progress throughout the survey and fieldwork. (GAS 6.47)
10. Senior Audit Managers are responsible for coordinating with the Administration staff and Directors to ensure project milestones are maintained and report processing steps are completed.
11. Audit team is responsible for completing preliminary survey, fieldwork, testing and working papers.
12. Senior Audit Managers are responsible for preparing audit reports for review and approval by the Director and the Auditor General.
13. Senior Audit Managers are responsible for conducting post project evaluations for all staff on the project and prepare the annual performance appraisal of certain staff.
14. Administration staff is responsible for maintaining a record of project hours for the auditors.
15. Administration staff is responsible for maintaining training records for all staff in the Office.
16. Administration staff is responsible for liaising with City Secretariats.

17. Administration staff is responsible for safeguarding and retaining audit work papers.

SECTION III – MANAGING THE AUDIT PROCESS

The policies and procedures in this section of the manual have been prepared to guide the Auditor General’s Office staff in managing and conducting audit work. By studying and adhering to the following guidelines, audit staff can help ensure that audits are conducted in a consistent and professional manner.

A. OVERVIEW OF THE AUDIT PROCESS

Regardless of the type of audit, the process followed in conducting audits and reporting to the City Council and/or management consists of the following phases:

1. Planning - Audit Selection – Audits are selected by the Auditor General with input from City Council, and/or professional staff based upon risk assessment, identified needs and available staff resources. Allegations of waste, mismanagement or potential fraud in a program receive immediate attention as they are identified and are often used in the development of the annual work plan.
2. Planning - Initiating the Audit – Several administrative activities are performed to begin the audit, such as assigning audit staff and notifying management of the organization scheduled for audit.
3. Planning - Audit Survey – During the audit survey, auditors familiarize themselves with the division or function by conducting background interviews and research. In addition, they identify risks and potential issues, and determine audit objectives and methodology.
4. Audit Fieldwork – Fieldwork consists of data collection, analysis and other activities designed to meet audit objectives. During fieldwork, auditors obtain more specific information to support and document audit findings.
5. Reporting – Reporting is the preparation of the written report, which communicates auditor findings, conclusions and recommendations.
6. Supervisory and Independent Review – The written report undergoes an internal quality control process to ensure that it is complete, accurate, objective and convincing. Independent review also assists in editing the report for clarity and conciseness.
7. Follow-up – The Auditor General’s Office employs follow-up procedures to help ensure management has taken appropriate action to resolve problems identified in audits.

Each audit has an auditor or a team of auditors assigned, working under the overall direction of the Auditor General or Director as appropriate.

