

For Information Only

2012 Peer Review - The Auditor General's Office

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Recommendation

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INTRODUCTION:

All members of Council are fully aware of the legislated responsibilities of the Auditor General's Office that are identified in the Municipal Act (2001). It is no coincidence that the section of this act containing legislation related to the Auditor General, is contained in a section identified as Transparency and Accountability.

In support of transparency and accountability, a formal peer review of the Auditor General's Office is to be conducted by independent audit professionals in accordance with generally accepted government auditing standards, and has been arranged for February 2012.

Through discussions with our municipal audit peers, we have learned that many municipal audit shops are members of the Association of Local Government Auditors (ALGA), and have adopted and follow Generally Accepted Government Auditing Standards (GAGAS or "The Yellow Book"). Peer Reviews are intended to help audit organizations in their efforts to meet these standards.

We have found that larger audit offices attempting to comply with generally accepted government auditing standards will generally follow a three(3) year cycle for independent peer reviews. Larger (mostly private sector), audit shops attempting to comply with the IIA's standards will generally follow a five(5) year cycle for independent peer reviews. For a small audit shop, we are being very proactive in initiating our first peer review at the end of 2011, as one would not normally be requested before July 2013.

GAGAS requires audit organizations to have an external peer review at least once every three years. As stated in GAGAS, the external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

GAGAS require audit organizations to transmit their peer review reports to the appropriate oversight body (Audit Committee/City Council). GAGAS also require the audit organization to make peer review reports

Signed By

Auditor General

Brian Bigger

Auditor General

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publicly available.

As with any audit, we see this as a valuable opportunity for us to receive feedback from our peers, to learn and continually improve our audit processes.

BACKGROUND:

The Auditor General's Office is staffed by audit professionals who are required to follow many sets of professional standards and codes of ethics while performing our independent audit function for the City of Greater Sudbury.

Due to the professional accounting and auditing designations held within our office, we follow the standards set by the Certified General Accountants Association of Canada (CGA), the Institute of Chartered Accountants of Canada (CA), and the Institute of Internal Auditors (CIA). Each of these institutes and associations also provide their own professional codes of ethics we comply with on a daily basis.

Right from the start, (winter of 2009 and spring of 2010), we developed our Quality Control System, and documented our processes in an Audit Procedures Manual. The development of this manual was a key step in preparation for our GAGAS peer review, helping us to ensure compliance with GAGAS standards.

We did provide Audit Committee members with electronic copies of our Audit Procedures manual early in 2011 for their reference. Our audits have been conducted in accordance with GAGAS and have included a compliance statement in the final reports issued.

OVERVIEW OF THE PEER REVIEW PROCESS:

There are generally three major peer review phases: (1) preparation, (2) the site visit, and (3) reporting.

PHASE ONE: Preparation

The audit organization contacts the peer review coordinator at least three months before the review. In the preparation phase, a review coordinator assembles a team consisting of a team leader and, depending on the nature and extent of the review, a number of review members. The coordinator works with the audit organization and team leader to ensure that the review agreement is signed and travel arrangements are made. The audit organization sends the completed background information and description of its internal quality control system to the team members.

PHASE TWO: The Site Visit

During the site visit phase, the review team examines the organization's internal quality control system and a sample of the audit organization's work for compliance with Generally Accepted Government Auditing Standards. In addition, the reviewers meet with audit management to discuss their conclusions. The team assesses the overall level of compliance and begins drafting their report. The site visit should generally last two to three days.

PHASE THREE: Reporting

The audit organization prepares a written response to the reviewers' conclusions. The reviewers complete and issue their final report. From the date of the exit conference, audit management generally has two weeks to prepare their written response, and reviewers generally have four weeks to issue their report.

PREPARATION:

How We Have Prepared For Our First GAGAS ("Yellow Book") Peer Review

1. We have familiarized ourselves with the ALGA peer review process and assessed our readiness for review.

- As peer reviews are a benefit of our membership in ALGA, we thoroughly reviewed the Generally Accepted Government Auditing Standards (GAGAS) and a peer review guide prepared by ALGA.
- Developed our procedures manual to ensure that we were in compliance with GAGAS.
- Referred to other Auditor General's Office procedures (the Auditor General's Office at the City of Toronto are ALGA members, and follow GAGAS)
- Spoken to peer review coordinators about our preparedness for the peer review.
- Attended an ALGA / GAGAS peer review workshop,
- Reviewed our own work using the ALGA Peer Review Guide.
- Reviewed other peer review reports from the ALGA web site.

2. The review period has been set.

- The review period establishes the scope of the peer review. As we are undergoing our first review, a period from January 2011 to December 2011 has been selected.

3. We have been in contact with, and have will have prepared advanced preparation packages for the peer review team.

- GAGAS requires that members of the peer review team have current knowledge of GAGAS and the government environment of the organization under review; be independent of the organization under review and its staff; and have knowledge on how to conduct a peer review.
- The Auditor General's Office contacted the ALGA peer review coordinator in March of 2011, hoping for a fall 2011 GAGAS review, and prepared advanced preparation package for their peer review team, however, we found this may have been too proactive, as a larger number of issued audits were preferred by ALGA. ALGA recommended a May/June 2012 review date.
- At this time, Council will have contracted with the The Institute of Internal Auditors, Global Headquarters to conduct an extensive "External Quality Assessment" review of the Auditor General's Office. The on site portion of the IIA's Quality Assessment review will commence on February 27, 2012.
- According to information provided by the IIA global office, only two municipal audit functions in north america have received the benefit of the IIA's External Quality Assessment review since 2008. Council has set the bar for our two person, two year old audit shop at world class!

Summary:

We look forward to the IIA Quality Assurance Team's report, and any suggestions they may have in providing ways to improve the City's understanding of the role of audit, enhance our audit processes, or

improve the effectiveness of our audit activity.