PERFORMANCE AUDIT MANUAL

Office of the Auditor General of Canada

The Manual is expected to be a focal point for the continuous improvement of our performance audit practice. Our knowledge and experience in this area continues to expand and evolve; so will this Manual. People who will use it are expected to exercise professional judgment in the application of its principles.

As you use the Manual, you will note that there are several areas where we have indicated that updates are expected soon.

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Performance Audit Manual

Any questions should be directed to Strategic Planning and Practices (SPPP) at the OAG.

Foreword

The Office's performance audit practice formally began 25 years ago with the 1977 enactment of the Auditor General Act. This new Act enabled the Auditor General to report whether money was spent with due regard for economy and efficiency in the acquisition and management of goods and services, and whether the effectiveness of programs was being measured and reported. This broader mandate allowed the Auditor General to examine how well the government managed its affairs and to report the results of this examination to Parliament.

The first major revisions to the Manual since it was introduced in its current form in January 1999 were made in December 2002. Since 2002, there have been many important improvements to our performance audit methodology and practice and this revision captures and consolidates all of those. For example, in June 2004, we decided to rename the practice from "Value-for-Money" to "Performance Audit".

This *Performance Audit Manual* covers all performance audits, including those carried out by the Commissioner of the Environment and Sustainable Development. The Manual applies to all of our performance audit work: audits, studies, audit notes, follow-up and related testimonies and hearings.

The *Performance Audit Manual* is built around our Performance Audit Quality Management Framework (QMF) and provides the policy guidance necessary for practitioners to comply with the Performance Audit QMF and produce high-quality audits. The QMF for performance audits grew out of the quality management system first developed for our financial audit practice. The expanded QMF covers all aspects of the performance audit process from the selection of audits through to post-tabling activities.

The QMF and our performance audit policies are in accordance with the standards for assurance engagements recommended by the Canadian Institute of Chartered Accountants. Functional audit guidance and tools are also available to assist auditors in applying the policies and practices contained in the Manual. The Manual has a strong quality orientation based on current thinking and practice in first-class professional organizations. It provides a clear picture of the standard of quality expected and encourages the exercise of professional judgement.

The *Performance Audit Manual* is the product of extensive consultations with the Executive Committee, Practice Development Committee, internal specialists including functional responsibility leaders, and performance audit practitioners in the Office, as well as external consultants.

The *Performance Audit Manual* is expected to be a focal point for the continuous improvement of our performance audit practice. As our knowledge of and experience with performance auditing continues to expand and evolve, so will this Manual. If you wish to offer any comments or suggestions for improving the Manual, you may contact the Office's Professional Practices Group.

11 June 2004

Introduction

Introduction

Preface

1. The Office of the Auditor General of Canada has one business line — legislative auditing — and six product lines:

- annual audit of the summary financial statements of the Government of Canada;
- annual audits of Crown corporations and other entities (federal, territorial, and international);
- special examinations of Crown corporations;
- performance audits of departments and agencies;
- environment and sustainable development monitoring activities; and
- assessments of agency performance reports.

The Practice Development Committee works with employees to develop and approve policies and expected practices for each product line, with the objective of ensuring that quality is maintained at the highest professional level.

2. This Performance Audit Manual sets out the Quality Management Framework and related policies that govern the conduct of all performance audit work, including environmental and sustainable development audits and studies, and provides guidance to auditors in complying with these policies. The purpose of the manual is to:

- assist users in achieving the highest possible level of quality in performance audits;
- promote the highest possible level of professional competence in Office employees;
- provide a basis for measuring audit performance; and
- allow others outside the Office to gain a better perspective and understanding of the practices and professionalism of the Office.

3. The Manual has been written to meet the specific needs of performance audit practitioners. It describes the conceptual underpinnings of the Office's performance audit methodology, explaining in broad terms how these audits should be selected, planned, conducted and reported. The Manual refers readers to

various audit tools and other guidance, providing only minimal "how to" information.

"Please note that modifications are carried out periodically to the Performance Audit Manual. A date is placed under the modified paragraphs or sections indicating the date of revision, and a date is placed in the footer indicating the current version of the Manual. Finally, appendix 3 gathers all the changes carried out to the Manual as of June 2004".

Use of the Manual

4.   The Office has developed a Quality Management Framework (QMF) to guide employees in managing performance audits. This Framework is designed to provide reasonable assurance that our performance audits are conducted in accordance with applicable legislative requirements, professional standards and Office policies.

5.   The policies and guidance contained in this Manual are in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirements for our audits, we also draw upon the standards and practices of other disciplines.

6.   Performance auditing policies are written as *should* statements and are to be complied with. Disagreements with the policies contained in the Manual or inability to comply with any of them should be brought to the attention of the Performance Audit Management Committee immediately.

7.   Performance audit practice expectations describe actions or behaviour that the auditor is expected to meet in carrying out the audit. If the auditor is unable to comply with such statements, the matter should be reported to the responsible Assistant Auditor General or the Commissioner of the Environment and Sustainable Development immediately.

Organization of the Manual

8.   The Manual generally follows the structure of the Performance Audit Quality Management Framework as outlined in <u>Figure 1</u>. Key elements of the Performance Audit QMF are described in **<u>Chapter 9</u>**.

9.   The policy and practice expectations related to **Leadership and Planning** are contained in the first two chapters of the Manual.

> **<u>Chapter 1</u>** sets out the general policies, defines performance auditing, describes the mandate, and links performance auditing and accountability.

> **<u>Chapter 2</u>** describes the overall planning process, how performance audits are selected, and the roles and responsibilities of key players.

10.   The policy and practice expectations related to **Audit Management** are covered in chapters 3 through 8.

> **Chapter 3** sets out the policies for audit conduct and practice expectations to meet them.

> **Chapter 4** sets out the audit planning process, audit examination policies, and practice expectations to meet them.

> **Chapter 5** sets out the reporting policies and practice expectations to meet them.

> **Chapter 6** sets out the policies for follow-up. (May 2005)

> **Chapter 7** sets out the policies for conducting studies.

> **Chapter 8** sets out practice expectations common to all product lines.

11.   Office guidance related to the Performance Audit QMF **Client Focus** elements can be found in the External Communication Policy document and in the Communications Plan.

12.   Policies and guidance related to **People Management** apply Office-wide and are outlined in the people section of the INTRAnet. Some of the specific practice expectations for people management at the team level are contained in the Manual at sections 8.55 to 8.59.

13.   Guidance related to the Performance Audit QMF **Continuous Improvement** elements is contained in chapter 8 of the Manual at sections 8.60 to 8.67.

**Key Elements of the Office's Performance Audit
Quality Management Framework**

Figure 1
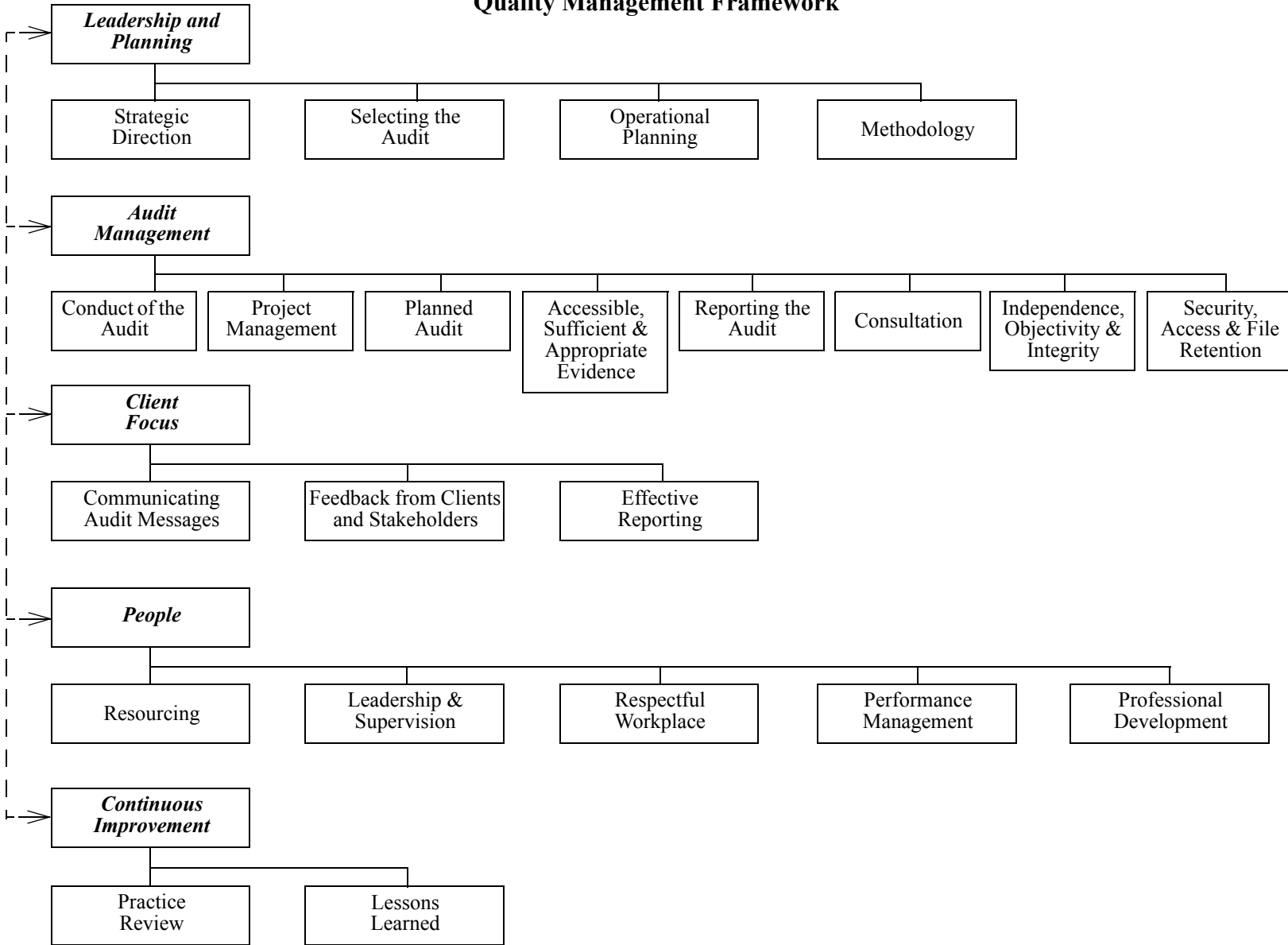
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General Policies, Definition, Mandate, Accountability, Access to Information

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General Policies

• **The Code of Values, Ethics and Professional Conduct and other Office policies should be adhered to in all Office activities.**

• **All performance audits should be completed in accordance with the Office's performance audit policies.**

Definition of Performance Auditing

1.1   A performance audit is a systematic, purposeful, organized and objective examination of government activities. It provides Parliament with an assessment on the performance of these activities; with information, observations and recommendations designed to promote accountable government, an ethical and effective public service, good governance, sustainable development and the protection of Canada's legacy and heritage.

1.2   Its scope includes the examination of economy, efficiency, cost-effectiveness and environmental effects of government activities; procedures to measure effectiveness; accountability relationships; protection of public assets; and compliance with authorities. The subject of the audit can be a government entity or activity (business line), a sectoral activity, or a government-wide functional area.

1.3   A high-quality performance audit is one that is carried out in compliance with the policies contained in this manual (see Appendix 1), and, in particular, responds to the full range of obligations in our mandate, adds value, serves Parliament and the well-being of Canadians, and is objective, timely and cost-effective.

Mandate

1.4   The *Auditor General Act* of 1977 provides the original legal basis for the Auditor General to carry out performance audits. It was amended in 1995 to include responsibilities related to environmental matters. Section 7 (2) of the Act requires the Auditor General to "call attention to anything that she considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including cases in which she has observed that:

a) accounts have not been faithfully or properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that the expenditures have been made only as authorized;

c) money has been expended other than for the purposes for which it was appropriated by Parliament;

d) money has been expended without due regard to economy or efficiency;

e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or

f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development."

1.5   The cases listed above do not specifically define or limit the scope of performance audits, but indicate that they are of a nature that Parliament wants examined. As a result, they are considered when scoping all performance audits.

The Relationship between the Audit Function, and Government Policy and Policy Making

1.6   Special care is required when audit findings touch on government policy. As officers of Parliament, we do not want to be seen to be second-guessing the intentions of Parliament when it approves legislation, or of Cabinet when it selects a certain policy direction. On the other hand, auditors must understand pertinent policies to audit effectively, and results-oriented auditing inevitably brings us closer to policy matters.

Past audit chapters have commented on the following policy issues:

•   The economy or efficiency of the implementation of policy (for example, the high cost of achieving industrial benefits through government procurement);

•   Whether practices comply with policy expectations (for example, extent of compliance with Treasury Board's policy on service standards);

- The adequacy of the analysis on which a policy or program is based;

- Opportunities to fill policy gaps (for example, the need for a government-wide policy on emergency preparedness);

- The need to update or improve existing policy (for example, the need for a new White Paper for defence).

1.6.1 The risks of mandate concerns are low for the first two examples, but increase considerably for the latter three.

1.6.2 This is especially true when the policies involved are political rather than administrative in nature. As illustrated by the spectrum in the exhibit below, policies range from administrative policies to national policies. Generally, the risk to the Office increases as you move to the right, especially if we want to comment on the completeness or adequacy of policy.

Departmental administrative policies, such as service delivery policies.	Government administrative policies that support programs, such as the requirements of the Contract Regulations or the Financial Administration Act.	Tax administration policies, such as rules designed to secure an effective check on the assessment, collection and proper allocation of revenue.	Specific policy decisions which may or may not require legislative approval; e.g. to close certain government offices, or create jobs in certain regions.	Program policy goals (usually in legislation or the Estimates) such as fisheries conservation policy, peacekeeping policy, or universality in the Canada Health Act.	National policy goals that may not be formally enunciated, documented or adopted, such as reducing child poverty.

1.6.3 Government policies often begin as a party platform, white paper or political speech without any official standing or legislative base (**national policy goals**). They achieve more formal status when they are enshrined in legislation and/or receive government funding (**program policy goals**). Once they reach this stage, auditors can examine how they are being implemented, and whether the policy goals are being achieved. It is generally understood that audits more usefully examine the implementation rather than the development of policy, and that audits do not question the merits of the government's programs and policies. The merits are for Parliament to review and debate. If audit findings throw a government policy or legislation into doubt, caution is necessary as the auditor may become involved in a partisan political debate.

1.6.4 A related issue is whether the Auditor General should put potential policy issues on the parliamentary/public agenda — e.g., aging, or child poverty. The AG's mandate and role as servant of Parliament requires her to bring to the attention of Parliament, and thus the public, any matter that she deems relevant to the exercise of her responsibilities. To this extent at least, the AG can legitimately play a role in shaping the public policy debate. But this would be very risky, and could easily involve the Office in partisan politics.

1.6.5   Programs may be subject to **specific policy decisions** by ministers or Cabinet committees. In some cases they are unwritten policies supported by ministers. Even if they have the effect of reducing economy and efficiency, they may be justifiable to the Government on the basis of effectiveness. It may be very difficult to get the whole story and find out what analysis and weighting was given to efficiency versus effectiveness.

1.6.6   **Tax administration policy** is a special case. The Auditor General's mandate lies in paragraph 7(2)(b) which requires her to call attention to cases where the rules and procedures do not secure an effective check on the assessment, collection and proper allocation of revenue. Because the Canada Customs and Revenue Agency is on a self-assessment system of taxation, taxpayers are drawn into the administration or implementation of the rules and procedures that, for the most part, are set out in legislation. Therefore, concluding on the rules and procedures necessarily entails concluding on the sufficiency of legislation. We judge "sufficiency" according to the rather intangible standard of policy or legislative intent. Our comments on tax policy have been limited to situations where the intentions of the policy were not being realized.

1.6.7   **Departmental or government-wide administrative policies** present fewer risks. There are areas, such as Official Languages, where the sensitivities are high.

Principals *should*:

- Notify their Assistant Auditor General (AAG) or Commissioner of the Environment and Sustainable Development (CESD) when it appears that an audit will result in observations about the adequacy of national or program policy; and

- Obtain Executive Committee approval before reporting on the merits of existing government policies, or attempting to put matters on the public policy agenda.

A discussion paper, entitled "Audits and Government Policy", provides additional information on the relationship between policy and auditing.

Performance auditing and accountability

1.7   Audit is superimposed on an accountability framework. A traditional definition of accountability is the obligation to answer for a responsibility conferred. This definition often is interpreted as implying two distinct and often unequal partners: one who confers and the other who is obliged to answer. In so doing, it does not address well several realities in today's public management. These include:

- the emergence of alternative delivery approaches, such as arrangements between the federal and provincial governments, where responsibilities may not be conferred from a senior party to a junior one, but agreements nonetheless assume accounting for results;

- the call for a much increased focus on performance-based management and results in the public sector; and

- the importance of transparency as an essential feature of public sector accountability.

1.8   In light of these new realities, a restatement of the underlying principles, practices and tools of accountability, which incorporates the traditional definition could be: a relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed upon expectations.

1.9   In this view, accountability is about the requirement to answer for what you have accomplished (or not) that is of significance and of value. This restatement implies that accountability can exist in other than hierarchical relationships, since there is no necessary "conferring" taking place. Accountability is rather seen to be assumed and/or agreed to by each party in a recognized accountability relationship, even when one party does indeed delegate responsibilities to the other, as in the traditional case. A focus on performance covers both the benefits accomplished for Canadians and due process and fairness in the delivery of services. In demonstrating performance against agreed upon expectations, the need for openness and transparency is made evident.

1.10   Parliament has three fundamental roles:

- to legislate;

- to appropriate funds; and

- to scrutinize government operations.

1.11   Parliament expects that the government will carry out its wishes, spend money with due regard to value for money, and measure the effectiveness of approved programs. The government has an obligation to account to Parliament on its stewardship of taxpayers' money and on the discharge of its responsibilities.

1.12   The Auditor General's role, superimposed on this relationship, is to assist Parliament in its scrutiny of the government's performance. One way it fulfils this role is by conducting performance audits and examinations.

> **Those independent audits, examinations and studies provide objective information, advice and assurance to Parliament, government and Canadians. The OAG works collaboratively with legislative auditors, federal and territorial governments, and professional organizations and provides a respectful workplace in which its diverse workforce can strive for excellence and realize their full career potential.**

1.13   The *Act*, for the most part, does not define the means by which the performance audit responsibilities are to be discharged. It entrusts the technical interpretation and application of the law to the Auditor General. In other words, the Auditor General decides what, how and when to audit. This unique position of trust places a responsibility on the Office to carry out its work in accordance with the highest professional standards.

1.14   Appendix 2 sets out definitions and interpretations of key terms used in the *Auditor General Act*.

Access to information to fulfil audit responsibilities

1.15   Sub-section 13(1) of the *Auditor General Act* and the *Financial Administration Act* entitles the Auditor General "to free access at all convenient times to information" needed in order to report. She is also entitled to "receive from members of the public service such information, reports and explanations, as she deems necessary". The nature and type of information needed to fulfil her responsibilities is decided by the Auditor General. Further guidance on matters of access is provided under Access to information in Chapter 8.

2 *Key Factors in Discharging the Performance Audit Mandate*

Selecting the right area for audit

2.1   The starting point in the performance audit planning process is deciding what to audit from the myriad of government activities. This is a complex and challenging exercise that requires good knowledge of the entity's business or sector of activity and a high level of professional judgment. It is, however, one of the most important steps in the process, if we are to meet the requirements of our mandate cost-effectively and make a difference for Canadians. If the selection of audit topics is not done well, all the audit work that follows will have little chance of producing satisfactory results.

2.2   The Office's Strategic Plan sets out a vision that provides an important starting point in deciding what to audit. As well, our annual Report on Plans and Priorities sets out the strategic or end outcomes that we are trying to achieve; in general, better managed government programs and better accountability to Parliament and the public, and, specifically:

- public confidence in government institutions,

- good governance and an accountable government,

- progress toward sustainable development,

- effective and efficient programs, and

- credible performance reporting by departments to Parliament.

2.3   The planning process involves several layers of activity that interact in a complex manner before an audit begins. These include the identification of external trends and business risks that apply to all audits; the defining of entities, functional areas and sectors to be examined over time; and the choice of entities, programs or activities to be examined. The audit selection process is driven by three criteria: the significant risks associated with the area; relevance of proposed audit activities to the Auditor General's focus areas and mandate; and auditability.

2.4   Risk-based audit planning focuses on how well an entity is managing major risks rather than simply focusing on areas of suspected weaknesses. It begins by establishing a good understanding of entity objectives, expected results, and stewardship responsibilities. Teams then identify the important factors that may affect the entity, or entities within a functional area, and assess how well the entity is responding to key challenges, opportunities and critical success factors

that affect the achievement of objectives and the fulfillment of stewardship responsibilities for public funds and assets. Significant risk includes the notions of materiality, importance to the achievement of government results, and current parliamentary or public interest.

2.5   Relevance addresses whether the area being considered advances the Auditor General's five focus areas and falls within the mandate of the Office. Areas that would fall outside of our mandate are political policy decisions and the administration of programs delivered by other levels of government.

2.6   Auditability defines whether the area is amenable to audit. Auditability risks include:

- Availability of adequately qualified internal and external resources

- High political sensitivity

- Complexity of the proposed area

- Experience of the audit team

The Office planning process

2.7   The Office has established an extensive process of consultation, analysis and planning in order to ensure that relevant matters of significant risk are audited in a timely fashion and that the requirements of the mandate are met. It is not possible to audit every aspect of government, and a process is needed to select the areas of greatest risk. The following is a brief outline of this process.

2.7.1   The planning process or cycle starts with periodic environmental scanning to identify external trends and long-term risks and challenges that the Office may face. Throughout the year, groups identify proposed audits through one-pass planning and other risk-based analyses. As one-pass plans are completed for entities and functional areas, the results are presented to Executive Committee for review and discussion. Each spring, all of the proposed audits are consolidated and Executive Committee approves those that will be reported over the next 12-18 months and agrees on a schedule of planned audits for the next several years. In the fall, the operational plan for the upcoming fiscal year is approved. This plan provides for the financial and people resources required to carry out the next year's audits.

2.7.2   The key components of the planning process, as well as the role of the Executive Committee, the Strategic Planning and Professional Practices group (SPPP), and the Comptroller are outlined below. The Executive Committee has overall responsibility for audit planning and is supported in this role by SPPP and the Comptroller.

One-pass plans

2.7.3   One-pass plans provide a systematic, integrated and risk-based approach to long-range audit planning. These plans differ from our previous performance audit-specific planning in several important ways:

- There is greater emphasis on business risks that are critical to the success of the organization or functional area, and how they are being managed, as the basis for selecting audits.

- Risks are integrated for all mandate areas, not just for performance audits.

- The one-pass planning process is consistently applied from team to team.

2.7.4   One-pass plans ensure that available resources are focused on the areas of greatest risk. They provide assurance to the Auditor General and to Parliament that the Office is exercising due diligence in applying the discretion provided in the *Auditor General Act* section 7 for selecting matters for audit. The elements of the one-pass planning process are:

- Identify entity/functional objectives and stewardship responsibilities

- Prepare the entity risk profile or challenges/risks to achieving functional objectives

- Prepare the entity control profile (may not be applicable for functional areas)

- Align risks with Office mandate and focus areas

- Identify potential audits and assign priorities

- Assess gaps in audit coverage

- Report to Executive Committee

Auditor General's focus areas

2.7.5   The Auditor General identified five areas that she wishes to focus on during her term. These focus areas form an integral part of our Strategic Plan. They will assist us to both plan and report on the results of our audit work. The focus areas are:

- Accountability to Parliament

- Effective public service

- Aboriginal issues

- Well-being of Canadians — health, safety, environment, and social and national security

- Legacy and heritage

Executive Committee spring audit selection meeting

- At the spring meeting, the Executive Committee rationalizes proposed audits with other work and the resources available (financial and people) on an Office-wide basis to achieve a balanced performance audit program and consensus for the next year's work.

- A schedule of planned audits for future years is also developed with a view toward advancing the Auditor General's focus areas in a satisfactory manner.

- The input for this meeting comes primarily from focus area plans, one-pass plans and other risk-based analyses of entities and functional areas that have been prepared.

Executive Committee fall operational planning meeting

- Each fall, led by the Comptroller and SPPP, the Executive Committee meets to update audit plans and to consider and approve the budget for the upcoming fiscal year.

- The initial funding for performance audits that will be tabled in the next fiscal year, and April and May of the following year, is approved.

- Following this approval, individual budgets for the audits are reviewed and confirmed or revised at the end of the survey phase and any necessary reallocations take place at that time.

Executive Committee

2.7.6 The Committee's responsibilities are to:

- review one-pass plans for entities and functional areas (proposed audits are approved at the spring audit selection meeting);

- establish a reporting strategy over time by scheduling the number of chapters, the length of the chapters and by co-ordinating and grouping report themes;

- approve individual audits, review audit summaries (synopsis of approved examination plans), track chapter progress, and provide a forum to discuss concerns; and

- resolve report issues and issues arising between audits.

Strategic Planning and Professional Practices group

2.7.7 SPPP supports the performance audit planning process by:

- co-ordinating environmental scanning work;

- scheduling presentation of one-pass plans to the Executive Committee;

- organizing the spring audit selection meeting including preparation of supporting material such as risk analyses and proposed audits; and

- maintaining one-pass planning methodology for risk analysis and reporting.

Comptroller

2.7.8   The Comptroller supports the performance audit planning process by:

- preparing budget information for the Executive Committee spring audit selection meeting, in particular, performance audit capacity projections for the planning year and two subsequent years;

- presenting an operational plan and budget for approval at the Executive Committee fall operational planning meeting; and

- maintaining the chapter-tracker database and presenting regular reports to Executive Committee on the status of approved performance audits.

Types of performance audits

2.8   The Office has designed a number of performance audit approaches in order to make the audit products more relevant to Parliament. Government activities and projects often cross departmental lines. Reporting on the activity or project as a whole is normally more useful than commenting on a segment carried out by a specific entity. The types of performance audits are:

- **entity or program audits**, which provide a substantive review of the whole or part of the operations of a department or agency;

- **government-wide audits**, which focus on government-wide issues or functional areas, such as human resource management, in a number of departments selected by the Office;

- **sectoral audits**, which focus on program areas delivered by a number of entities, for example, search and rescue operations;

- **audit notes**, also called other audit observations, are an alternative mechanism for reporting matters of significance that come to our attention during the course of our work on any Office products. Audit notes usually report on a single subject which must be within the mandate of the Office; and

- **follow-up audits,** which report on government actions in response to previous recommendations and issues of the Office and that are of continued interest to Parliament, and/or that pose a significant risk. (May 2005)

Roles and responsibilities of the key players

2.9   Many groups and individuals in the Office contribute to the cost-effective completion of a performance audit and a high-quality audit report. They provide expert advice, guidance, legal counsel, challenge and review, methodology, high-technology audit tools, and assistance in editing, translation and presenting the report. Their roles and inputs are noted throughout various sections of this manual.

2.10   The final audit chapter is the result of the joint effort of all these individuals. This section briefly sets out the roles and responsibilities for a typical audit engagement of the audit Principal (team leader), team directors, team members, the AAG/CESD and the Quality Reviewer.

The audit Principal

2.11   The audit Principal has overall responsibility for auditing the entity, managing the entire audit cycle and a team of auditors, and ensuring the quality of audit products produced by the team. The responsibilities include:

- maintaining an adequate team knowledge of the organization(s) or function;

- maintaining effective departmental relations;

- managing all aspects of the audits addressing her/his entities, and co-ordinating with other teams on audits affecting their entities;

- leading the audit team, delegating responsibilities, monitoring progress and reviewing performance;

- managing budgets and timely completion of audits;

- seeking counsel and expert advice throughout the audit;

- reviewing draft audit reports and chapters;

- advising the AAG/CESD and the Executive Committee on progress of audits and emerging problems;

- involving the AAG/CESD, the Quality Reviewer and the audit advisory committee on all important audit matters and documenting decisions;

- providing assurance to the AAG/CESD on audit quality, including documenting her/his approach to ensuring: (1) the adequacy of the evidence to support major observations, conclusions and recommendations prior to issuing the PX Draft, and (2) the completion and review of the substantiation binder to support all observations, conclusions and recommendations prior to issuing the Transmission Draft chapter;

- ensuring compliance with all performance audit policies; and

- recommending to the AAG/CESD that the Principal's draft and Transmission draft be forwarded to the entity;

- recommending the chapter be approved for publication by signing the Final Approval Form.

Directors

2.12   Depending on their capabilities and experience, directors are delegated by the Principal (responsible for managing individual audits) some of his/her authority. Their responsibilities may include:

- initiating the audit planning process and developing detailed audit plans;

- determining audit objectives, identifying entity components significant to the overall audit objectives, defining an audit approach, determining criteria and documenting how the audit covers the risks identified in one-pass planning;

- carrying out overviews, surveys and audit examinations;

- preparing overview and survey reports, examination plan and chapter drafts;

- preparing briefing packages on the audit for advisory committees, the Performance Audit Management Committee, the Executive Committee, the Auditor General and others, as well as preparing accountability reports, press releases, and chapter communications strategy;

- supervising the work of auditors and other team members; and

- supervising the preparation of audit files, substantiation binders, and accountability and other documents, and documenting her/his review of the files/binders prior to the issuance of the Transmission draft chapter.

Team members

2.13   Carry out the responsibilities assigned to them by their supervisors. As such they are expected to support their supervisors in fulfilling their responsibilities, including:

- delivering quality products;

- being alert to possible non-compliance with policies and practice expectations;

- identifying other audit opportunities; and

- providing continuous improvement feedback on the Office's quality management.

The Assistant Auditor General / Commissioner of the Environment and Sustainable Development

2.14 The AAG/CESD oversees all aspects of the audit. The duties include:

- giving advice and counsel to the Principal and to the audit team;

- rationalizing Group workload and resources;

- being involved in major audit decisions on entity relations, scope of audit, access problems, complex and contentious issues, reporting strategy, reviewing and challenging the report chapter, reviewing related files as necessary, clearing the report with senior entity officials and documenting on the Final Approval Form his/her concurrence with the Principal's recommendation that the chapter be approved for publication.

- communicating expectations vis-à-vis quantification, and reviewing survey plans to ensure this is addressed;

- seeking the advice and input of the Quality Reviewer assigned to audits within her/his Group;

- providing signoff that any advice received from the Quality Reviewer was dealt with in a mutually satisfactory manner;

- chairing audit advisory committees;

- providing assurance to the Performance Audit Management Committee (PAMC) on audit quality;

- ensuring that all performance audit policies are followed; and

- approving that the Principal's draft and the Transmission draft be forwarded to the entity.

Quality Reviewer

2.15 A Quality Reviewer is named for each performance audit, study and audit note as soon as they are approved. Quality Reviewers provide an additional element of independence and objectivity in key risk areas: audit planning and reporting. In order to maintain their independence, Quality Reviewers provide advice but do not make decisions. The Quality Reviewer is a member of the audit Advisory Committee or Audit Notes Committee. S/he is not considered to be part of the audit team.

The Quality Reviewer provides advice on the following risk areas:

- significant audit risks identified by the audit team;

- completeness of the planning process;

- suitability of the criteria used for evaluating the subject matter;

- suitability of the audit approach, particularly in higher risk areas;

- sufficiency and appropriateness of evidence, particularly in relation to high risk findings;

- handling of contentious issues that may arise during the audit;

- nature and extent of consultation by the audit team;

- significance of any disagreements between the entity and the audit team relating to matters discussed in the chapter; and

- appropriateness of the conclusions.

These responsibilities are carried out primarily through discussion with the audit team and through review of selected working papers.

2.16   Quality reviews are carried out by an AAG/CESD or PX or, in the case of some audit notes, possibly a DX. The PX Practice Development, at the request of the Performance Audit Executive Working Group (PA-EWG), prepares a list of Quality Reviewers for upcoming reports. The list identifies for each chapter at least two possible candidates for consideration by the PA-EWG. The PA-EWG ensures that a quality reviewer is appointed for each audit and study and notifies the affected AAGs, PXs, QRs and Chapter Tracking of the assignments. The Audit Notes Committee ensures that a quality reviewer is appointed for each audit note. This is typically a member of the Audit Notes Committee. (May 2005)

In developing the list of potential Quality Reviewers, the PX Practice Development should take the following criteria in consideration:

- a Quality Reviewer is to be an AAG or PX with sufficient experience in conducting successful performance audits; and

- a Quality Reviewer is not to be assigned to more than one chapter per report. (May 2005)

In addition to these two criteria, key attributes of a quality reviewer are:

- familiarity with the subject matter or entity;

- independence and objectivity; and

- availability. (May 2005)

Performance Audit Management Committee (PAMC)

2.17   The Performance Audit Management Committee, on behalf of the Executive Committee, manages the Performance Audit process. The Committee monitors the implementation of plans, makes recommendations on significant changes, receives regular reports and provides approvals of key milestones in the Performance Audit process. The Committee carries out its reviews to ensure that the Quality Management Framework has been applied as spelled out in the Performance Audit Manual. (October 2004)

2.18   The PAMC reviews the Final Approval Form for performance audits and studies prepared by the Principal and reviewed by the line AAG/CESD and approves the chapter for publication in the Report of the Auditor General.

3

Audit Conduct Policies

Due care

The audit team should exercise due care.

3.1   Due care requires the auditors to carry out their audit work diligently, conscientiously and with rigour. It requires that the audit be performed in accordance with professional standards and OAG policies. Following professional standards and OAG policies means that auditors exercise sound judgment when deciding the audit objective, what and when to audit, the basis for measuring performance, the audit approach and methodology, the extent of audit, the issues to be reported and the overall audit conclusions. Due care also requires that those supervising the audit work and providing review and challenge on the major audit decisions exercise similar vigilance.

Objectivity and Independence

The audit team should be made up of individuals who have an objective state of mind and are independent.

3.2   Auditors must maintain an objective state of mind. This means that the auditor does not direct the audit toward areas of personal interest or prejudge findings. The findings and report can be influenced only by evidence obtained and assembled in accordance with the other audit policies and guidance contained in this manual. The auditor needs an unbiased point of view when making decisions about scope, criteria, audit evidence, significance of observations, and conclusions.

3.3   Independence requires that the Office and members of the audit team, whether staff or contract personnel, be free of any hindrances to their independence that could impair (or be seen to impair) their impartiality in carrying out their work, making judgments, forming opinions and conclusions or making recommendations.

3.4   Audit staff are encouraged to develop and maintain good relations with officials and staff in the audited organization. The audit policies require the auditor to recommend corrective actions when reporting deficiencies. This conduct is to be carried out in a way that does not impair the independence of the Office or the auditor.

Competence of the audit team

The audit team should have collective knowledge of their subject matter and auditing proficiency necessary to fulfil the requirements of the audit.

3.5   The audit team leader *should* identify at an early stage in the planning process if specialized or technical skills, not available on the audit team, are required to complete the audit. The early identification will allow the necessary lead time to acquire suitable staff from within the Office or to obtain persons under contract.

3.6   The quality of a performance audit is directly related to the people assigned to the audit. An audit procedure that requires the exercise of judgment beyond the ability of the person expected to make the judgment will likely end in failure.

3.7   The Office has an obligation to Parliament, the audited organizations, and the other stakeholders to ensure that competent personnel conduct audits. This requires the audit team to possess, or collectively possess, the knowledge, disciplines, skills and experience to carry out the audit effectively. This includes any specialists that are contracted to assist the team in any way.

3.8   The audit team *should* have:

- knowledge of performance audit concepts and techniques and the ability to apply the knowledge;
- experience and technical skills to effectively deal with the subject matter of the audit;
- knowledge of the audit entity; and
- a general knowledge of the government environment.

3.9   The audit team *should* consult Functional Responsibility Leaders (FRLs) and other support groups such as Product Leaders (PLs) and Subject Matter Experts (SMEs) where necessary to obtain expert advice particularly when the audit team lacks the necessary specialized knowledge.

3.10   Audit advisors *should* have the appropriate background and knowledge to effectively review and challenge the key decisions of the audit.

3.11   Where appropriate competence is not available, the audit *should* be redefined or deferred until appropriate personnel are available.

Supervision

The audit team should ensure proper supervision of all its members.

3.12   Supervision involves directing audit staff and monitoring their work to ensure that the audit objectives are met. Supervision is an essential and continuous process that requires that the audit principal, directors and other supervisors *should*:

- ensure that all team members fully understand the audit objective(s);
- delegate audit projects to team members with a clear outline of what is expected from the project;
- provide appropriate counsel, advice and on-the-job training based on the experience of the team members;
- ensure that audit procedures are adequate and properly carried out;
- ensure that the performance audit policies and the audit reporting process are followed;
- ensure that audit evidence is appropriate, sufficient and documented and that it supports audit observations and conclusions; and
- ensure that only necessary audit work is carried out and that budgets, timetables and schedules are met.

Entity management's input to the audit

The audit team should seek entity management's views about critical elements of the audit.

3.13   Good relations between audit staffs and entity management is built on the basis of respect and trust. Where this type of relationship exists, both management and the Office can benefit when the audit team seeks input throughout the course of the audit. As noted earlier under the section dealing with Objectivity and Independence, such relationships do not compromise the auditors' independence or the quality of the audit report.

3.14   For larger entities, principals *should* provide annually their usual contact in the department with a five-year audit plan including details on audit topics and timing for the first two years, and less precision for the next three years, as well as a list of potential government-wide audits, and offer to meet with the Audit and Evaluation Committee of the Department or other pertinent senior level committees to discuss the audit plan. AAGs/CESD *should* communicate this plan to the Deputy Minister.

3.15   The audit team *should* seek entity management's input when:

- planning the audit to obtain views on the critical success factors for the activity being audited, management's responsibility for the activity, sources of criteria, risks, management concerns, and other audits or studies carried out in the area;

- finalizing the audit plan to obtain views on the approach and the criteria selected for the examination phase;

- developing findings to agree on the facts, or to obtain alternative sources of evidence;

- developing recommendations to obtain management's views on the best ways to correct the problem;

- obtaining agreement on the facts, observations, issues, and recommendations contained in the audit chapter, or to point out any disagreements; and

- finalizing the draft chapter to obtain the deputy head's comments and planned departmental actions to correct any deficiencies, and any disagreement with the report.

3.15.1   The audit team should seek management's acknowledgement of responsibility for the activity as it relates to the objective of the audit, where practicable. If the audit team does not obtain management's acknowledgement, the audit team should:

a) obtain other evidence that an accountability relationship with management exists, such as a reference to legislation or regulations;
b) consider how the lack of management's acknowledgement might affect their work and conclusions; and
c) disclose in the report that acknowledgement of responsibility has not been obtained where it was practicable to do so.

Consultation and advice

The audit team should obtain sufficient, appropriate consultation and advice throughout the audit.

3.16   Performance audits are often complex undertakings requiring a wide range of skills, expertise and experience to be completed cost-effectively. As noted throughout this manual, considerable judgment is required at all stages of the audit. The requirement to have an Audit Advisory Committee, a Quality Reviewer named to each audit, and the support of internal leaders/specialists (Functional Responsibility Leaders (FRLs), Product Leaders (PLs) and Subject Matter Experts (SMEs)) ensures that appropriate advice and assistance are available to the audit teams. Audit teams *should* consult with a Quality Reviewer, the Audit Advisory Committee, FRLs, PLs and SMEs as appropriate.

When an audit is deemed of high risk as it relates to a FRL area, FRL consultation is considered **mandatory** from the outset of the audit. Audit risk as it relates to FRL consultation is determined by such factors as **auditability** (e.g. audit team capacity to deal effectively with the FRL area of expertise) or **credibility** (e.g. the Office has previously taken a reported position as it relates to this area).

The assessment of an audit as high risk as it relates to an FRL area is generally determined as a result of the One-Pass Planning exercise.

The Performance Audit Quality Management Framework also requires that Audit Principals account for sufficient consultation with FRLs (see Quality Assessment/ Help Checklist).

3.17   Following is an outline of the key responsibilities of these advisory bodies.

The Audit Advisory Committee

3.18   Audit advisory committees are established for all performance audits. Members of a committee, from both inside and outside the Office, are selected on the basis of their skills, insights, relevant knowledge and experience. Outside advisors are recognized as leaders in their fields of expertise.

3.19   The committee is designed to primarily provide a forum where the audit team can seek advice on the objectives of the audit, the general approach, and the significant matters and issues that are to be reported. The team also presents information to the committee at the critical decision points of the audit and normally meets two to four times during the course of an audit. The audit team consults with committee members on the following aspects of the audit:

- the preliminary audit objectives, background and rationale for the audit, initial lines of inquiry, and the relevance of the planned audit to the Office's mandate;
- the scope, general approach and criteria, and emerging issues;
- proposed observations, recommendations, conclusions and reporting strategy; and
- the report chapter to assure that it addresses the right message, is fair, significant and clearly presented.

3.20   The role of the committee is to:

- advise on planned coverage, matters of potential significance and audit approach in the early stages of the audit;
- provide expert counsel on the significance of issues;
- review the avenues for quantification being pursued and whether they will be achieved;

- provide independent review, challenge and counsel at the critical control points of the audit; and

- advise on whether the report "message is right" and the issues are significant, and on the tone, fairness and reasonableness of the presentation.

3.21   The audit Principal could also use individual members of the committee with expert knowledge as special advisors to the audit team.

Functional responsibility leaders (FRLs)

3.22   The Office has established three categories of internal leaders/specialists available to performance audit teams to provide consultation and expert advice: Functional Responsibility Leaders (**FRLs**); Product Leaders (**PLs**); and Subject Matter Experts (**SMEs**). These internal leaders and specialists are expected to establish and maintain personal expertise in their subject matter areas; current knowledge of related government policies and developments; an up-to-date inventory of outside consultants with appropriate skills for potential use by audit teams; the latest methodologies for auditing in their areas; and the means to communicate with and train audit staff in their area of expertise.

- **Functional Responsibility Leaders (FRLs)** have been identified for those areas directly related to the Office mandate in areas where it has a long and consistent history of reporting. When an audit is identified as high risk from an auditability and credibility perspective as it relates to the FRL area, FRL consultation throughout the audit engagement is considered mandatory. The identification of an audit as high risk in an FRL area is made as a result of the One Pass Planning process or in the case of an unplanned audit engagement by the Audit Principal prior to the outset of the audit with input and agreement of his/her AAG and the FRL involved.

- **Product Leader (PL) -Performance Audit** is one of six product leaders that the Office has identified to maintain and update current audit policies and standards for each audit product. OAG audit practitioners should seek advice and consult with this leader when questions arise of a technical and methodological nature during the conduct of their audit work.

- **Subject Matter Experts (SMEs)** are internal Office specialists who maintain current state-of-the-art knowledge/skills concerning specific subjects often essential to the successful completion of our audit work. SMEs assist and advise audit teams and also conduct audits in their areas of expertise. When required, audit practitioners should seek advice, guidance, techniques and resource references to enhance the quality of their audits. Where areas such as Fraud, Surveys and Quantitative Analysis, Access to Information and Mandate Issues arise in the audit, the Audit Principal should consult the SME as early as possible.

3.23   Audit teams consult appropriate FRLs, PLs and SMEs to seek their advice on scoping decisions, methodology, and contracting for external consultants with specialized skills. When an audit is deemed of high risk as it relates to a FRL area, FRL consultation is considered **mandatory** from the outset of the audit. It is the audit Principal's responsibility to obtain approval from all mandatory FRLs consulted during the performance audit and other FRLs/SMEs identified in the Chapter Proposal or recommended for consultation. These consultations should be accurately reflected the Summary Examination Plan and on the Final Approval Form.

Audit risk as it relates to FRL consultation is determined by such factors as **auditability** (e.g. audit team capacity to deal effectively with the FRL area of expertise) or **credibility** (e.g. the Office has previously taken a reported position as it relates to this area). (October 2004)

Mandatory consultation includes a FRL review of relevant sections of the PX draft chapter including advice on the consistency of observations and recommendations with previous Office positions taken publicly. Consultation with PL-Performance Audit and SMEs is voluntary based on the team's need for advice and assistance at any time during the conduct of the audit. (October 2004)

Legal Services

3.24   Audit teams seek advice from Legal Services on potential legal issues arising during the audit, possible recommendations to change legislation, engagement of outside legal counsel, mandate and third party references in the audit report. Further guidance is provided under Consultation with Legal Services in Chapter 8.

Regional offices

3.25   Audit teams consult with and seek the advice of the regional offices early in the planning stage when the audit has significant regional implications. Further guidance is provided under Co-ordination with Regional Offices in Chapter 8.

Quality Reviewer

3.26   A Quality Reviewer is named for each performance audit, study or audit note. S/he acts as an advisor to the audit Principal and is responsible for providing reasonable assurance to the AAG responsible for the audit on the quality of the report. (The role of the Quality Reviewer is explained in more detail in Chapter 2 under Roles and Responsibilities.)

Through discussion with the team and through the review of key documents, s/he will focus her/his attention on the following matters:

• the risks associated with the audit, how best to deal with these risks and the adequacy of other consultations in relation to these risks;

- the survey report and examination plan particularly in relation to the adequacy (for performance audits and studies) of the proposed level of work/methodology, of resources and independence of the team;

- the appropriateness and sufficiency of evidence related to high risk findings;

- the compliance of the report with previous Office positions and Performance Audit Reporting Principles.

The results of the review are documented in a memo to file to outline what review work was done and its results.

In cases where the Quality Reviewer and the Assistant Auditor General are in disagreement and where in the opinion of the Quality Reviewer, the Office is placed at risk, the Auditor General would be consulted.

It is the audit Principal's responsibility to ensure that the Quality Reviewer is consulted on a timely basis, and receives the information needed to perform his/her review.

Other support groups

3.27   Other support groups in the Office provide advice on media relations, report style and use of graphics, needs-related training, and audit methodology.

Documentation

> **The audit team should maintain appropriate documentation and files.**

3.28   Audit working papers and files are used to document key audit decisions and work. Audit documentation is relevant, complete and understandable, and structured for easy access. In carrying out its audit activities, the Office is required to comply with the *National Archives of Canada Act* (the Act) in its management of records. In addition, it is Office policy to conduct our performance audits in accordance with the standards for assurance engagements set by the CICA and to draw upon standards and practices of other disciplines. In relation to CICA standards, this includes the standards regarding documentation in audit files, especially in documenting matters the auditor considers important in providing evidence to support the conclusion expressed in the report. Further details are provided in the Guidance for Managing Audit Records in the OAG and the Audit Files Subject Classification and Numbering Guidelines.

3.29   Complete, indexed and cross-referenced working papers are of critical importance when reviewing findings with management, briefing the Auditor General, providing support at Public Accounts Committee hearings, answering subsequent queries from the client and others, and planning future assignments. Clear indexing and cross-referencing is key to ensuring the evidence is readily accessible.

3.30   Teams *should* maintain a Performance Audit Control File that contains the most significant reports, approvals and decisions throughout the life cycle of the audit. This includes:

- approvals resulting from the Office planning process, including the chapter proposal;

- approved survey plan if the team conducted an overview, otherwise, the chapter proposal;

- overview (if applicable) and audit survey reports;

- approved examination plan and any modifications;

- Executive Committee and PAMC decisions;

- management's views on the criteria and other elements of the audit;

- audit programs (if any) specifying the work to be carried out and work completed;

- comments and advice from advisors, Legal Services, FRLs, PL-Performance Audit, SMEs and the Quality Reviewer, and the significant audit decisions taken by the audit team and AAG based on this advice;

- reporting phase signoffs;

- significant correspondence with departmental management; and

- management's comments on the project reports and draft chapters and steps taken to resolve any differences.

3.31   The audit team *should* prepare substantiation binders that contain audit evidence most pertinent to the report content. We produce substantiation binders as a means to provide assurance as to the quality of the audit. Gathering together the evidence specific to a report for easy access also allows the Office to respond to internal or external enquiries (e.g. a hearing by the Public Accounts committee).

3.31.1   The goal is to ensure observations, conclusions and recommendations flow logically from available evidence and are well supported. The evidence in the substantiation binders should be persuasive so that a review of it by a reasonably knowledgeable person will result in similar observations, conclusions and recommendations.

3.31.2   Substantiation covers all aspects of the report. In addition to the evidence needed to support factual statements, the substantiation binders include support for the judgments, assumptions and audit conclusions made by the auditor, for example, in the form of a working paper setting out the logical arguments and supporting evidence for the auditor's decisions. Usually only some small part of a document or a working paper summary is needed as proof for a particular statement.

3.31.3   The auditors use their professional judgments in deciding what to include in the substantiation binder to support the report. They need to ensure that sufficient appropriate evidence for the more contentious, sensitive and highly visible issues are included in the binder. For other matters, such as the background information on the entity, the audit team can choose to include a cross-reference to the evidence found in other audit working paper files rather than putting a copy of the evidence itself in the substantiation binder. The binders are to be carefully indexed and cross-referenced to supporting details. Further guidance on audit evidence is included in Chapter 4.

3.31.4   Before issuing the PX Draft, the audit team gathers together the documentation to enable the PX to determine that sufficient appropriate evidence was obtained to support the major observations, recommendations and conclusions. The substantiation binders *should* be completed and reviewed prior to the issuance of the Transmission Draft.

3.31.5   By convention and practice, all working papers are confidential documents belonging to the Office. Audited organizations, Parliament and the public do not have automatic right of access to working papers. All requests for working papers from the media or public *should* be forwarded to the SME for Access to Information. Further guidance on matters of access is provided under Access to Information in Chapter 8.

Communications with Parliament and others

The audit team should deliver clear, persuasive and effective communications to Parliament and other stakeholders.

3.32   The primary means of communicating audit results is through the reports of the Auditor General. The reporting policies and related guidance for performance audits are covered in depth in Chapter 5 and some are posted on the INTRAnet.

3.33   Reports of the Auditor General, when tabled in the House of Commons, are automatically referred to the Standing Committee on Public Accounts (PAC). The Report of the Commissioner of the Environment and Sustainable Development is automatically referred to the Standing Committee on the Environment and Sustainable Development.

3.34   The audit AAG/CESD, Principal or team members may be called upon to communicate audit findings to members of Parliament. Further guidance is provided under External Communications in Chapter 8.

4 *The Performance Audit Planning Process and Audit Examination Policies*

Overview

4.1   Every facet of a performance audit requires professional judgment and individual initiative. After an entity (or portion of an entity), sector or functional area has been chosen, decisions need to be made about:

- what and how much to audit;

- what audit approaches, methodology and technology to employ to assess performance; and

- what staff skills, disciplines and experience to assign to the audit.

4.2   The Office's credibility, the cost-effectiveness of the audit, and the quality of the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development depend on sound judgment being exercised throughout the entire audit process.

4.3   The approach taken to arrive at a conclusion against each audit objective is an iterative one, and information is gathered and assessed; decisions are made whether to proceed to the next stage or whether additional input and consultation are necessary. The approach allows teams to identify at an early stage if an audit will not be cost-effective or if the approach needs to be revised. Audits can be modified or cancelled before significant costs are incurred.

4.4   **Figure 2** illustrates the approach.

4.5   Consultation is an integral part of the process to assist in specific judgments or decisions in the audit. For example, the audit Principal is expected to consult, at the critical decision points during the audit, with the Assistant Auditor General (AAG)/Commissioner of the Environment and Sustainable Development (CESD), functional responsibility leaders (FRLs), Product Leader for Performance Audit (PL-Performance Audit), Subject Matter Experts (SMEs), the Quality Reviewer, the Audit Advisory Committee, departmental management and other support groups in the Office, as appropriate.

4.6   The following general characteristics, therefore, summarize the basic approach:

- professional judgment and individual initiative;

- consultation at the key decision points;

- an iterative process to maintain a focus on matters of significance and interest to Parliament;

- staff and audit methodology tailored to reflect the characteristics of the entity or functional area; and

- audit costs kept in balance with the significance of the issues being examined and their interest for parliamentarians.

Figure 2

Basic Performance Audit Approach

Significance
Interest to Parliament

Balance

Cost

Approved area for audit
High-level objectives

Within Mandate? — NO → Redefine audit or cancel

YES

Select lines of inquiry/scope
Identify qualified staff
Determine methodology/approach
Identify criteria
Finalize audit objectives

Is it auditable?
Can policies be followed? — NO → Redefine audit or cancel

YES

Design audit programs
Carry out audit procedures
Assemble evidence
Evaluate evidence against criteria

Is the evidence sufficient and appropriate? — NO

YES

Develop observations
Form conclusions
Develop recommendations
Prepare Principal's draft

Are issues appropriately addressed? Significant? — NO

YES

Draft Report Chapter

Performance Audit Manual

Planning the performance audit

4.7   Prior to starting field work, a process of setting priorities, developing strategic and long-range plans, submitting chapter proposals, rationalizing resources and assessing anticipated audit worth has taken place. In selecting audits through this process, the audit management uses their preliminary knowledge of the subject area to form a reasonable basis for believing that the audit can be completed in accordance with the performance audit policies.

4.7.1   Early in the planning phase of an audit, the Performance Audit Management Committee (PAMC) receives and approves a chapter proposal. This one-to-two-page proposal:

- Describes the program/areas/issues to be audited (including if possible, the dollars and FTE's involved) and the objectives of the survey phase;

- Includes which AG focus area(s) the audit addresses;

- Presents the timing for the planning phase of the audit (including the planned start date, date of the first Advisory Committee meeting, and the date of the survey report);

- Presents the estimate of hours and contract and travel dollars budgeted for the entire audit and the portion of each allocated for the planning phase; and

- Identifies the mandatory FRLs and any other FRLs/SMEs that will be consulted during the planning phase.

This process results in the approval to begin the overview/survey phases of an audit.

4.8   DELETED. (October 2004)

The overview stage: understanding the subject of the audit

4.9   Audit teams acquire a sound knowledge of the audit subject (department, agency, sector or function) prior to commencing detailed planning of an audit. Irrespective of the size and nature of the subject, it is important for the audit team to understand "the big picture". Forming audit conclusions or reporting weaknesses without this overall knowledge may result in unproductive audit work or misleading findings. The audit team *should* have up-to-date knowledge of:

- significant legislative authorities;

- organizational arrangements;

- the environment in which the entity operates;

- key personnel;

- spending levels and revenues;

- the entity's clients;

- the objective, mission and expected results;

- major operations, including in the field;

- the accountability arrangements;

- the major control systems;

- major risks facing the entity, including control risk (the risk that significant error will not be prevented, detected or corrected by the related internal controls) and inherent risk (the susceptibility of the subject matter by its nature to significant error where there are no related controls);

- environmental issues in the context of sustainable development and the entity's Sustainable Development Strategy; and

- prior deficiencies/known weaknesses. (May 2005)

By including it in the list above, special emphasis is given to environmental issues to ensure that audit teams integrate fully the amendments made to the *Auditor General Act* in 1995. This is also linked to the identification of these issues and risks as part of audit teams' one pass planning. The "*4th E Practice Guide*" contains guidance and tools to assist auditors to identify and assess environmental issues and risks in their performance audit work.

4.10   **Figure 4** illustrates important features and complexities of a typical department or agency.

<div align="right">**Figure 4**</div>

<div align="center">**Planning the Audit - Understanding the Entity**</div>
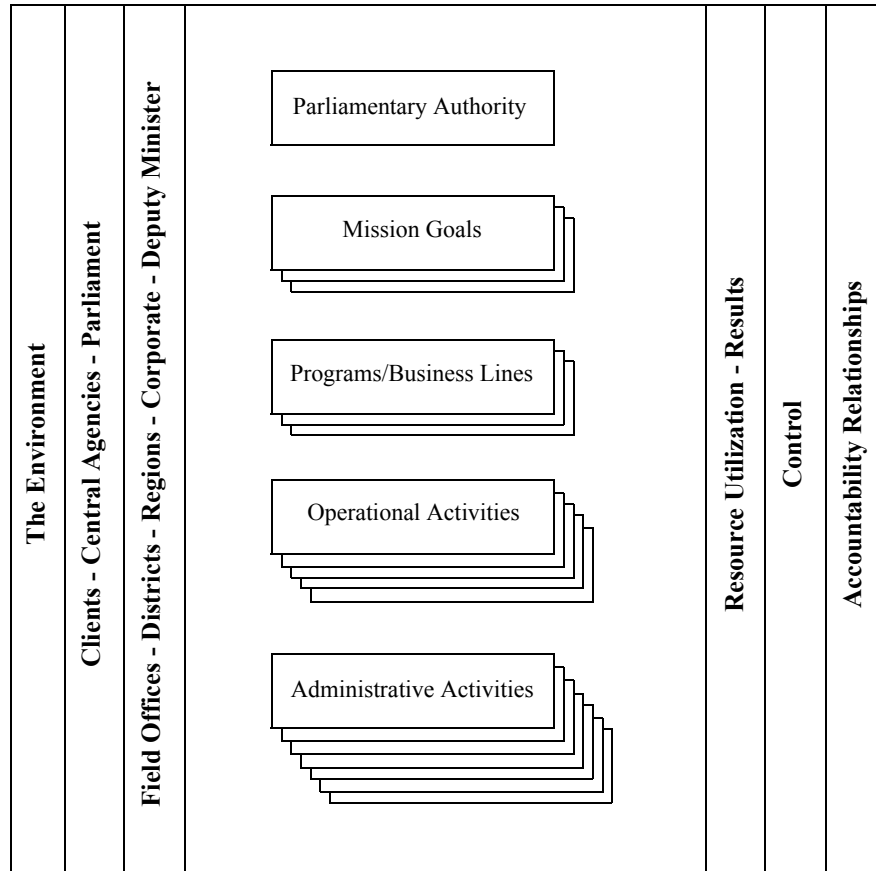
4.11   This knowledge provides the basis for describing the entity, making initial scoping decisions and defining lines of inquiry. It is also used to confirm which FRLs are mandatory and determine which SMEs or PLs to consult.

4.12   An audit team with considerable experience in auditing the department or agency may have cumulative knowledge to satisfy these requirements without engaging in a formal overview stage. In situations where the organization has not been audited recently or where there has not been continuity in the audit team, an overview study may be necessary.

4.13   Where a government-wide or sectoral audit is being carried out, an overview is required, and a submission is made to the Executive Committee at the end of the overview stage. Consultation ***should*** take place with the audit teams responsible for the entities or functional areas affected by the audit to obtain the necessary background information. The amount of knowledge necessary for these types of audits depends on the nature of the examination being conducted.

4.14   When an overview is done, an overview report is produced that discloses the subject of the audit, areas to explore during the survey stage and the reasons they were selected, an initial estimate of costs and milestone dates for the audit, a list of the FRLs, PL-Performance Audit and SMEs, and entity or functional Principals that will be consulted during the audit, and the skills needed to carry out the audit.

The survey stage

4.15   The purpose of the survey is to gain sufficient knowledge of the subject area for confirming that the audit can be conducted in accordance with the performance auditing policies, and to develop an examination plan that will provide a basis for the orderly, efficient and cost-effective conduct of the audit.The plan is prepared by the audit Principal, reviewed by the Quality Reviewer and FRLs, PL-Performance Audit and SMEs, as appropriate, possibly reviewed by the Audit Advisory Committee if appropriate, and approved by the AAG/CESD.

4.16   The survey is a broad-based appraisal of the operations subject to audit, without carrying out detailed verification. The auditors gather information in order to fine-tune initial decisions about scope, cost, timing and skills, and to propose audit objectives, areas for in-depth review, criteria, and examination approach. In finalizing these decisions, the audit team designs an audit to reduce the risk of making erroneous observations, faulty conclusion and inappropriate recommendations in the report to correspond with the level of assurance provided by the work.

4.16.1   When an overview is not formally done or is combined with the survey phase, the chapter proposal reviewed by the Performance Audit Management Committee can be used as the survey plan that the team will follow in conducting its survey phase.

Like the chapter proposal, the survey plan is a short document that:

- Describes the program/areas/issues to be audited (including if possible, the dollars and FTE's involved) and the objectives for the survey phase;

- Includes which AG focus area (s) the audit addresses;

- Presents the timing for the planning phase of the audit (including the planned start date, date of the first Advisory Committee meeting, and the date of the survey report);

- Presents the preliminary estimate of hours and contract and travel dollars budgeted for the entire audit and the portion of each allocated for the planning phase; and

- Identifies the mandatory FRLs and any other FRLs/SMEs that will be consulted during the planning phase.

4.17   A wide variety of procedures and techniques are used to gather the necessary information. These may include:

- interviews with management;

- review of authorities, policies, directives, Cabinet documents, etc.;

- review of entity's Performance Report and Report on Plans and Priorities; and Sustainable Development Strategies;

- review of entity's Internet site;

- review of management and accountability reports;

- review of result commitments;

- observation of facilities;

- walk through of major systems and control procedures;

- analysis of the relationship between resource utilization and results;

- consider related environmental issues, including discussion, as needed, with FRL-Environment (Guidance can also be found in the "*4th E Practice Guide*");

- assessment of risks facing the entity, including control risk and inherent risk;

- consultation with advisors and outside organizations to identify best practices and opportunities for improvement;

- previous audits and studies and audits conducted by others;

- survey of the use of technology; and

- review of spending trends.

4.17.1   As noted in 4.9, audit teams should have up-to-date knowledge of major controls systems and risks (both control risk and inherent risk) facing the entity prior to detail planning of the audit. For audits in which the team intends to rely on controls, a more in-depth knowledge and assessment of the controls is required, and the audit team should obtain sufficient appropriate audit evidence through tests of those controls.

4.18   The time spent at the survey stage of the audit will usually result in a more organized and cost-effective audit. There is no universal approach to ensure effective decision making during this stage. The audit Principal and the team need to develop a thorough understanding of the audit subject, and exercise significant judgment. The resulting examination plan ***should*** provide a clear focus to guide

the audit to a successful conclusion. This is critical to the identification of the issues that will be reported. Performance audit reports contain conclusions about complex government operations, and their relevance and impact is heavily influenced by decisions made during the survey phase.

4.19   Advice and concerns received are documented. The examination plan is approved by the AAG/CESD. A summary examination plan is then prepared and submitted to the Performance Audit Management Committee for approval and is posted on the INTRAnet.

4.20   An important tool used in all phases of the planning process is risk assessment. Risk is defined as the probability that an event or action may adversely affect the organization, such as exposure to financial loss, loss of reputation, or failure to deliver the program with economy, efficiency, cost-effectiveness or taking into account the environmental implications. A risk assessment requires the auditor to ask the following type of questions:

- What can go wrong?
- What is the probability of it going wrong?
- What are the consequences?
- Can the risk be minimized or controlled?

The survey report

4.21   The results of the survey are documented in a survey report. The report includes footnote references to the relevant analysis and documentation supporting the report that are maintained in the permanent files or working papers, as appropriate. The survey report contains those aspects of the audit on which the audit team consults with the Audit Advisory Committee and others. The report *should* at least include:

- preliminary audit objectives;
- overview and background of the organization or function under audit;
- environmental issues considered and reasons for their inclusion or exclusion in the proposed audit scope;
- an indication of how the audit links to Office priorities/focus areas and to risks identified in the one-pass planning;
- survey findings for the matters of potential significance;
- proposed audit scope and a general description of the proposed audit approach;
- draft audit criteria and their sources;
- timing of the audit, including the likely timing of Audit Advisory Committee meetings; and

- reporting strategy, including the response to any direction from the Executive Committee.

4.22 The audit Principal is responsible for the preparation of the survey report. The AAG/CESD documents his/her approval for distribution of the report before presenting it for consultation to the Audit Advisory Committee.

The Examination Plan

4.22.1 Following consultation with the Audit Advisory Committee, appropriate FRLs, PL-Performance Audit and SMEs, and the Quality Reviewer, the plan for the completion of the audit is finalized and documented in an examination plan. Audit procedures with appropriate level of detail to address the audit objectives and criteria are addressed in the examination plan. Where the team considers it necessary, it may use audit programs to set out more detailed audit procedures. The examination plan *should* contain the following:

- audit objectives;

- final audit scope, major considerations and rationale for the scoping decisions, reasons for any scope limitations, and how the audit addresses the risks identified in one-pass planning and in the planning stage of the audit;

- environmental issues included in the final audit scope;

- specific issues including environmental issues, selected for audit and the objectives for each issue/project;

- specific issues raised in the audit and the objectives of each question/ project;

- audit criteria and their sources;

- for each project, description of the audit approach and methodology (that is, nature, extent and timing of evidence to be collected and analyzed taking into account the identified risks and tests for reliance on controls), including opportunities to quantify the results and the approach for the use of secondary evidence;

- for each project, identification of audit staff, including regional and functional staff and the qualifications of contractors engaged for their special knowledge or skills;

- estimated cost for each project in terms of hours and contract and travel dollars, including where necessary an assessment of variance from initial approved audit budget;

- timing of the audit, milestones/control points and timing of Audit Advisory Committee meetings; and

- timing, estimated costs and resources to complete the reporting phase and all its requirements. (October 2004)

4.22.2   The audit Principal is responsible for the preparation of the audit examination plan. It is the audit Principal's responsibility to ensure that the Quality Reviewer is consulted and receives the information needed to perform his/ her review prior to the approval of the plan by the AAG/CED. The AAG/CESD documents his/her approval of the plan before the examination work begins. It is the audit Principal's responsibility to ensure that the mandatory Functional Responsibility Leaders and the Quality Reviewer are consulted and receive the information needed. (October 2004)

4.22.3   The examination plan should confirm the original audit budget or result in a revised budget being submitted for approval. In the case of a large variance, the AAG/CESD *should* submit the revised budget to the Executive Committee and to the Comptroller for information. This will allow for the timely reallocation of resources.

4.23   The examination plan is the basis for a summary examination plan submitted by the team to the PAMC.

4.24   Any major revisions that are made subsequent to the audit objectives, scope, budget requirements, reporting strategy, cost or timing of the audit *should* be approved by the AAG/CESD and the PAMC.

Audit objectives

> **Audits should have clear objectives that can be concluded against.**

4.25   Audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of an activity; for example, results achieved, economy or efficiency. Ideally, audit objectives would be consistent with the achievement of results of the entity, sector or functional area. In general terms, the objectives of a typical performance audit are compatible with the Office's Strategic Plan.

4.26   The audit objectives are to be carefully considered and clearly stated. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives. Future audit effort will be directed toward answering the questions raised in the objectives. The audit objectives *should* therefore be defined as precisely as possible in order to avoid unnecessary and expensive audit work. Any changes to the audit objectives, and the major considerations and rationale for such changes, *should* be brought to the attention of the AAG/CESD, the audit advisory committee, the Quality Reviewer and the PAMC.

4.27   In many cases, the audit work also includes providing valuable and necessary information to Parliament. Such non-audit objectives (*... to provide an overview of...*) for which a conclusion cannot be reached and is not expected, *should* be separated from audit objectives (*...to determine whether...is efficient*), for which a conclusion can be reached.

4.28   Historically, the Office has relied on direct reporting. Direct reporting is done in a situation when there is no assertion by the auditee, and the performance auditor audits the subject matter and reaches a conclusion on it. In an attestation engagement, on the other hand, the auditee makes an assertion and the auditor expresses an opinion on the assertion.

4.29   There is a move to performance reporting on a government-wide basis. All departments and agencies are expected to produce a Report on Plans and Priorities and a Departmental Performance Report (DPR). This provides a greater opportunity for the Office to audit DPRs in an attest mode.

4.30   However, this process is just beginning and understandably progress is still minimal. Therefore, the Office will continue to rely on direct reporting for some time.

Audit scope

> **Audits should have a clear scope that focuses the extent, timing and nature of the audit.**
>
> **Audits should select issues on the basis of their relevance to the Office's mandate, significance and auditability.**

4.31   During the early planning stages, the activity to be audited is often defined in broad terms. Very seldom is it practical or cost-effective to audit everything. Scoping the audit involves narrowing the audit to a relatively few matters of significance that pertain to the audit objective, can be audited with the resources available, and are critical to the achievements of the intended results of the audit subject. There are three underlying principles in establishing the scope of the audit:

- relevance to the mandate
- matters of significance
- auditability

Relevance to the mandate

4.32   The *Auditor General Act* provides the Auditor General considerable latitude in deciding what to audit. The fact that certain matters are specifically identified in the Act for inclusion in reports indicates that they are matters of interest to parliamentarians. The mandate of the Office and the interests of parliamentarians are key factors in assessing the relevance of matters to audit.

4.33   The merits of political policy are beyond the scope of our audits. Refer to paragraph 1.6 on the relationship between the audit function and government policy.

Matters of significance

4.34   The five focus areas set out in the Office's Strategic Plan provide an important tool when considering audit worthiness of potential areas of audit. They state that we focus on significant issues and matters that will add value and serve Parliament and the well-being of Canadians. Identifying matters of significance for audit involves answering the following type of questions:

- Does the subject have an important impact on results?

- Is it an area of high risk?

- Does it involve material amounts?

- Does the audit have the potential to result in improved performance, accountability or value for money? Will it make a difference?

- Is it an issue with visibility or of current concern? Is it of interest to parliamentarians and Canadians? Is the timing opportune for the audit and to meet the needs of the client?

4.35   The purpose of the scoping exercise is to allow the concentration of audit resources and effort on a relatively few areas that can have a significant impact on the performance and results of the subject being audited.

4.36   The identification of matters of significance is usually carried out by taking a top-down approach. Most organizations have a hierarchy of objectives and planned results, reflected in their Program Activity Architecture (PAA) and controls. The activities, procedures, controls and transactions tend to mushroom as one moves down the hierarchy. In larger organizations, there may be hundreds or thousands of procedures and controls at the lower end of the hierarchy. A top-down approach allows a global perspective to be taken of what is important. (Figure 4 illustrates the complexity of a typical department.)

4.37   One of the outputs from the scoping exercise is the identification of matters of potential significance or issues for in-depth audit. Typically, the five or six matters most critical to the success of the activity being audited, or those that present the greatest risks or opportunity for improvement, are chosen for detailed audit. Relentless attention by the auditor is needed to identify and focus the audit on the critical operations.

Auditability

4.38   Auditability relates to the audit teams ability to carry out the audit in accordance with professional standards and audit policies. A variety of situations may arise that may cause the audit team to decide not to audit a particular area even though it is significant. In reaching such a decision, the audit team ***should*** have concluded that:

- The nature of the activity is inappropriate; for example, it may not be practical to attempt to audit the technical considerations of a research facility.

- It does not have or cannot acquire the required expertise.

- The area is undergoing significant and fundamental change.

- Suitable criteria are not available to assess performance.

4.39   The scope statement ***should*** describe the parts or functions of the organization/program that are the subject of the audit and to which the audit conclusions apply as well as the time period covered by the audit.

Audit criteria

Audits should have suitable criteria that focus the audit and provide a basis for developing observations and conclusions.

4.40   Auditors need a means of measuring or judging the performance of the matters subject to audit. The standards used for this purpose are referred to as audit criteria.

4.41   Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices, and the economy, efficiency and cost effectiveness of operations can be evaluated and assessed.

4.42   Suitable criteria are criteria that are appropriate to the particular characteristics of the audited organization. They focus, wherever possible, on the results expected to be achieved by the operation, system, control, etc. The assessment of whether or not criteria are met results in audit observations.

4.43   Criteria ***should*** be developed for each of the lines of audit inquiry. They are to be relevant, reliable, neutral, understandable and complete. The aggregate of the observations allows the audit team to form a conclusion against each audit objective.

4.44   The sources of the criteria determine the amount of effort needed to assure the suitability of the criteria. Criteria are either generally accepted or not. Potential sources are listed in paragraphs 4.45 and 4.48 in descending order of relevance. (May 2006)

4.45   The sources of generally accepted criteria are:

- laws, regulations and central agencies requirements; and

- standards developed by recognized professional organizations that follow due process. (May 2006)

4.45.1   Criteria based on the law or regulations can be accepted by the auditor. In these circumstances, the auditor needs only to ensure that they are related to the audit objective. The same is true of central agencies authoritative requirements (such as policies) that departments and agencies must comply with and that are

issued under the authority of their Acts and ministers. This category of criteria does not include the guidelines and tools developed by the central agencies for use by departments and agencies at their descretion. These are discussed in paragraph 4.48.3. (May 2006)

4.45.2 Criteria developed by recognized professional organizations that follow due process also come from a source generally accepted. Due process means that criteria have been developed through consultation, appropriate challenge and vetting and that they reflect consensus among professionals. (May 2006)

4.46 When there are no generally accepted criteria consistent with the objective of the engagement, criteria that are not generally accepted should be used. (May 2006)

4.47 DELETED. (May 2006)

4.48 Criteria that are not generally accepted, i.e., that lack authoritative support, can also be used after their suitability has been established by the auditor through sufficient research and validation. The sources of these criteria are:

- standards developed by recognized professional organizations that do not follow due process;

- criteria used by the Office or others in similar engagements unless they come from sources in paragraph 4.45;

- standards established by the audited organization; and

- standards and practices used by other organizations carrying out similar activities. (May 2006)

4.48.1 Criteria developed by recognized professional organizations that do not follow due process could be used. A number of reasons may justify the absence of due process without detracting their relevance and overall suitability. However, as could be expected they will not be as authoritative and will require due care on the part of the auditor to ensure that their legitimacy is well established and accepted by the entity audited. (May 2006)

4.48.2 Over the years, the Office has developed and tested criteria for a large number of entities and activity areas. These may apply well to more current audits. However, the fact that these criteria have been used in the past does not, by itself, make the criteria authoritative. It is the responsibility of the auditor to re-assert the source and suitability of the criteria. (May 2006)

4.48.3 Primary sources of criteria for performance audits are the controls, standards, measures, result commitments and targets adopted by the management of the organization. Where the entity has adopted meaningful and specific measures for assessing its own performance, the auditor *should* carry out a review of those relevant to the audit to ensure that they are reasonable and complete. Guidelines and tools developed by the central agencies and adopted by the audit entity should be treated in this way. The audit team can consult with professional bodies or other organizations carrying out similar activities or operations to test

the quality of the standards or to identify best practices. Where the entity's own measures are found to be suitable, they can be adopted as the audit criteria. Central agencies' guides and tools should not be confused with the requirements mentioned in paragraph 4.45. It is up to the entities to use them or not and consequently they cannot be treated as being as authoritative as policies. (May 2006)

4.48.4   The auditor can rely on performance data of other organizations, inside or outside of the government, that have similar activities or operation, best practices determined though benchmarking or consultation; and standards developed by the auditor through the analysis of a task or activity. (May 2006)

4.48.5   Benchmarking and the development of standards through analysis of individual activities and/or comparison with similar activities in other organizations are costly activities and would not normally be undertaken by the auditor. Where the audit survey indicates the potential for significant improvement to operations or savings, the auditee could be encouraged to carry out such activities. In extreme circumstances, the auditor can seek advice on the advisability of carrying out such tasks from senior management of the Office and the Audit Advisory Committee. (May 2006)

4.49   The audit Principal *should* discuss the audit objectives and the criteria to be used, as well as management's responsibilities for the subject area, with senior officials in the audited organization and obtain written comments, if possible, on the suitability of the criteria and the team's understanding of management responsibility in the context of the audit approach. Auditors may use the "Entity Plan Summary" template to help prepare the Summary plan. If there is disagreement with management on the team's understanding of management responsibility or on the suitability of the criteria and the conflict cannot be resolved, the Principal *should* consult the AAG/CESD and the Audit Advisory Committee before proceeding with the audit. Under no circumstances is the audit to be carried out using criteria that would result in biased or misleading audit results. (May 2006)

4.50   DELETED. (May 2006)

4.51   If there is disagreement with management about criteria or management responsibilities, this is to be disclosed in the chapter with an explanation of why the audit team believes management is responsible for the subject matter and/or why the team used the criteria despite management's objection.

4.51.1   The source of the criteria should be disclosed in the chapter. If the criteria were developed specifically for the audit, the discolusre statement should provide indications on the process followed to validate them. (May 2006)

4.52   As the audit progresses, additional information may result in certain criteria not being necessary to achieve audit objectives. In these circumstances, further audit work related to the criteria is not necessary.

Audit approach: a focus on results

4.53   Having defined the audit objective, scope and criteria, the audit team needs to design an audit approach that will produce the most meaningful audit result for the client, in a most cost-effective manner. This applies equally to direct reporting and attestation audits.

4.54   Parliamentarians have indicated a preference for information that is results-oriented and at a high level. To the extent possible, audits *should* be designed to provide information that points to areas of interest to parliamentarians.

4.55   In the past, many audits were driven by control and process concerns rather than added-value considerations. Because of this, the Office has shifted the emphasis of its audits, in recent years, to focus more on results. This requires that audits, irrespective of the approach, identify, wherever possible, the effect or potential effect of audit findings. A focus on results *should* be kept regardless of whether the scope of the audit is a program, an operation, a system or a control. When carrying out an audit of a component of a program, the auditor needs to understand its relationship to the intended results of the program.

4.56   An audit that does not provide the "so what" of the issue will likely receive an indifferent reception from parliamentarians and the management of the audited organization. It may also cause the auditor difficulty in concluding against audit objectives.

4.57   This section briefly describes two main audit approaches:

- **Auditing results directly.** This approach focusses initially on outputs and outcomes.

- **Auditing the control systems.** This approach focusses initially on systems and controls.

4.58   Developing a practical and effective audit approach brings out the diversity and complexity of performance auditing. There is vast room for innovation in the application of new techniques and, over the years, the Office has employed computer-assisted techniques, operations research, simulation and modelling, statistical sampling, surveys and a variety of other advanced methods to collect audit evidence. For any specified audit, a combination of approaches may be used.

Auditing results directly

4.59   Departments and agencies are now required to define results commitments in their Program Activity Architecture (PAA) and to report goals and actual performance in the Estimates documents tabled annually. These provide excellent points of reference for results-oriented auditing.

4.60   The concept of a results-oriented approach can apply irrespective of whether the scope of the audit is a program, an operation, a system or a control.

4.61   This type of audit focuses on assessing the results achieved in relation to those intended. The audit does not initially examine the details of the methods or processes but looks at the outputs or outcomes themselves. The approach is particularly appropriate where there are suitable criteria available to measure the quality, quantity and cost of the outputs. If the result is satisfactory, the risk of there being serious flaws in the design or implementation of the activity or process is minimal. Where the auditor finds the result to be unsatisfactory, the activity and the control system are examined to the extent necessary to identify the specific causes of the problem.

4.62   The types of problems that may be identified include:

- services that are not in accord with the program mandate;

- unit costs that exceed departmental standards, or costs of comparable activities in other sections of the government or in outside organizations, and

- goods or services that do not meet standards of quality or quantity.

4.63   Where the audit objective is to examine the achievement of program objectives, the auditor exercises caution that the audit does not question the merits of political policy. The Office has no desire to enter into a political policy debate — that is the job of the politicians.

An example of a results-based audit:

Succinctly stated, an objective of the audit was to assess the cost-effectiveness of the payroll system. The audit was focussed on the reasonableness of the annual cost of paying an employee, and whether the employee was paid on time and in the right amount. The examination of the accuracy of the pay and the timing indicated that these aspects of the payroll were satisfactory. Criteria on costs were based on the costs of paying provincial government employees. This information was obtained with the assistance of several provincial auditors general. Comparison of actual costs with the criteria indicated potential for very large savings in the federal system. Further analysis indicated that greater use of technology would substantially reduce costs. The department reported that its subsequent actions to modernize the payroll system resulted in millions of dollars in annual savings.

Auditing the control systems

4.64   This approach is designed to determine if the organization has adequate control systems to provide reasonable assurance that the intended results are achieved. The word control is taken in its widest interpretation and embraces all of the elements of management that are required to achieve an intended result.

The audit is designed to carry out analysis, review and testing of the key components of the control system to ensure that it is appropriately designed and implemented. If the control system is effective, it provides a strong indication that the results will be satisfactory.

4.65   Normally, only high-risk components of the system would be reviewed in depth. Controls are chosen for audit on the basis of their significance to the achievement of key results. Where major deficiencies are identified, the auditor takes further steps to identify the cause of the problem and its effect or potential effect on intended results. The approach provides a solid foundation for making recommendations to improve the systems and practices and for identifying unnecessary controls.

4.66   Flow charts are often used to analyze the system. The disadvantage of this approach is that in a large, complex organization the cost of detailed systems analysis is high. It is also frequently difficult to identify what impact a control deficiency will have on results.

4.67   In both approaches described above, the auditor may examine the actual transactions, events, records or documents. The basic methodology is to define the population to be tested, select a sample, and then examine the transactions against the standard or criteria. Testing is directed toward results whenever possible. For example, a sample of purchases could be tested to determine whether a department is paying too much overall.

4.68   Sampling may be the primary approach for gathering evidence. Direct testing is particularly useful where the auditor wants to assess the extent of some event or characteristic in the population, to quantify the effects of a deficiency. Where the auditor wishes to project the results of tests as a generalization of the whole population, formal sampling techniques can be used. If the auditor does not have a strong background in sampling techniques, expert advice can be sought.

The examination stage

4.69   The purpose of the examination stage is to gather sufficient appropriate audit evidence to allow the auditor to support all of the statements made in the audit report. (Note: In reference to audit evidence, the word 'sufficient' has the meaning of 'enough'.)

4.70   The audit team designs audit tests and procedures to obtain evidence in the most cost-effective manner. The examination plan sets out the tests and procedures. The examination plan provides:

- a guide for conducting and co-ordinating the work of the examination stage;

- a framework for assigning work and assessing and establishing budgets for the remainder of the audit;

- a basis for supervising work; and

- a means for transferring knowledge to junior staff.

4.71   As noted earlier in this manual, performance auditing can be described as an iterative decision-making process. The gathering of evidence is in line with this overall process. The auditor gathers information, evaluates it for its appropriateness, and determines if it is sufficient to support observations about entity performance, conclude against audit objectives and make useful recommendations. If not, additional evidence may need to be gathered.

4.72   The evidence-gathering process involves the following steps:

1) designing the audit procedures or tests (examination plan);
2) carrying out the audit procedures or tests/gathering evidence;
3) analyzing evidence and drawing conclusions which may also involve evaluating performance against the audit criteria; and
4) making decisions about whether additional information is required and can be obtained (go back to step 1) or whether sufficient appropriate evidence exists.

4.73   It is not unusual for audits to be redesigned during the examination stage as teams encounter unforeseen difficulties in gathering sufficient evidence of appropriate quality. Auditors have to be alert to any signs that the evidence-gathering process may not be achieving the level of assurance required for the performance audit assignment and take appropriate corrective action.

Audit evidence

> **Audits should have sufficient appropriate evidence to support the contents of the audit report.**

4.74   Evidence is information that is collected and used to provide a factual basis for developing observations and concluding against audit objectives. Evidence provides grounds for believing that a particular thing is true or not by providing persuasive support for a fact or a point in question. As such, it is evidence that must support the contents of an audit report, including any descriptive material and, more importantly, all observations and conclusions leading to recommendations.

4.74.1   Audit observations, conclusions and recommendations included in the report must be able to withstand critical examination. They must, therefore, be supported by sufficient appropriate evidence. In determining whether evidence of sufficient quantity and appropriate quality has been gathered, the auditor needs to be satisfied that in their professional judgment there is no risk of making erroneous observations, faulty conclusions, or inappropriate recommendations.

4.74.2   Although decisions about whether there is sufficient appropriate evidence are ultimately matters for the auditor's professional judgment, there are several considerations to bear in mind in making these decisions.

Appropriate evidence

4.75   For evidence to be appropriate, the information must be relevant, reliable and valid.

- *Relevance* refers to the extent to which the information bears a clear and logical relationship to the audit criteria and objectives. For example, when determining whether small and medium-sized enterprises have easy access to a specific government program, gathering data from large enterprises would likely yield irrelevant information. If information is not relevant, it cannot be evidence.

- *Reliability* concerns whether there is a likelihood of coming up with the same answers when either the audit test is repeated or information is obtained from different sources. This means that a measurement or evidence gathering process is more reliable when repeated measures or performances of the process produce the same result or a consistent result that is minimally affected by measurement errors (random distribution of measurement errors).

- *Validity* has to do with whether the information actually is what it purports to be in relation to content, origin and timing. An audit rarely involves the authentication of documentation/information, nor is the auditor trained as or expected to be an expert in such authentication. However, the auditor has to consider the validity of the information to be used as audit evidence, for example, photocopies, facsimiles, filmed, digitized (scanned) or other electronic documents, including consideration of controls over their preparation where relevant.

4.75.1   The following rules of thumb have proven helpful in judging the appropriateness of evidence:

- documentary evidence is usually better than testimonial evidence;

- audit evidence is more reliable when the auditor obtains consistent evidence from difference sources or of a different nature (e.g. testimonial evidence that is corroborated by other sources is better than testimonial evidence alone);

- original documents are better than photocopies;

- evidence from credible third parties may be better than evidence generated within the audited organization;

- the quality of information generated by the audited organization is directly related to the strength of the organization's internal controls (the auditors should have a good understanding of internal controls as they relate to the objectives of the audit); and

- evidence generated through the auditor's direct observation, inspection and computation is usually better than evidence obtained indirectly.

Sufficient evidence

4.76   The concepts of sufficient (quantity) and appropriate (quality) in relation to evidence are interrelated. The quantity of evidence is sufficient if when taken as a whole its weight is adequate to provide persuasive support for the contents of the audit report. In exercising professional judgment, auditors should ask themselves whether the collective weight of the evidence that exists would be enough to persuade a reasonable person that the observations and conclusions are valid, and that the recommendations are appropriate. Important factors to consider in making these judgments include:

- the quality of the evidence (its relevance, reliability and validity);

- the level of materiality (in dollar terms) or the significance of the observation or conclusion (in general, the higher the level of significance or materiality, the higher the standard that evidence will have to meet);

- whether an audit level of assurance (high) or a review level of assurance (moderate) is required (for example, a higher level of assurance is required for evidence to support observations than is required to support contextual information included in the report);

- the risk involved in making an incorrect observation or reaching an invalid conclusion (as an example, if any risk of legal action against the auditee results from reporting an observation, the standard of evidence demanded will be high); and

- the cost of obtaining additional evidence relative to likely benefits in terms of supporting observations and conclusions (as in most things, diminishing returns apply in gathering audit evidence -- at some point, incurring the cost of obtaining more evidence will not be justified by changes in the persuasiveness of the total body of evidence).

4.76.1   It is often the case in performance audits that important 'facts' are not singular but instead are made up of a collection of interrelated facts. In reaching a conclusion, the auditor has to take into account that the strength of the 'collection' may be as important as the strength of the individual facts for the assessment of the quality and quantity of evidence.

4.77   A challenge that auditors frequently face is how to provide sufficient appropriate evidence that something does not exist (for example, that the audit entity provides no training to a particular category of staff). Not finding something begs the question of where and how hard one has looked. In these circumstances it is particularly important for auditors to use multiple sources of evidence, that is, to corroborate, and to document their approach to looking for the evidence. In the example above, testimonial evidence by some staff that they had never received

training would not constitute sufficient appropriate evidence that the entity provides no training. However, confirming such testimony by consulting the training records of all staff in the category and interviewing human resources professionals in the entity would provide much stronger evidence.

4.77.1 In this instance and in others, "clearance" of the audit report by the auditee does not replace the need for sufficient appropriate evidence. Such evidence must be on hand before the audit report is drafted, so that the report's observations, conclusions and recommendations are evidence-based. The purpose of sending a draft report to the auditee is to obtain confirmation (not evidence) that the facts in the report are accurate, and that the report presents a fair perspective.

4.77.2 If, despite best efforts, an audit is unable to meet the standard of obtaining sufficient appropriate evidence, a limitation exists on its scope. In these circumstances, the available evidence and its limitations may be reported, but observations and conclusions *should* not be drawn from the evidence. If the Office decides to report the matter, it would be reported as a qualification to the conclusion that a certain part of the subject matter can not be evaluated due to lack of evidence. When, in the judgement of the Office, a 'qualification' is not sufficient due the significance and extent of the limitation in the evidence, the audit report will express a denial of conclusion. A denial states that a conclusion can not be made on the subject matter.

Documentation of evidence

4.77.3 One of the OAG's Performance Audit conduct policies requires the audit team to maintain appropriate documentation and files.

4.77.4 The documentation of evidence is a vital aspect of performance auditing and it *should* be completed before the DM transmission draft is issued. Good documentation of evidence helps ensure that:

- an adequate and defensible basis exists for the audit's observations, conclusions and recommendations;
- the observations, conclusions and recommendations can be explained in response to internal or external enquiries (for example, at a hearing of the Standing Committee on Public Accounts);
- an effective link exists between successive audits; and
- an appropriate basis exists for quality control in carrying out an audit and for subsequent third-party reviews.

4.77.5 In so far as evidence is concerned, audit files and working papers *should* contain information about the approach and work undertaken to achieve the audit objectives. The key documentation covering the entire audit process includes:

a) The Executive Committee's approval of the selection of the audit.
b) The survey report with footnote references to the relevant analysis and documentation supporting the report.

c) The examination plan that outlines the audit objectives and criteria, and a description of the audit and methodology (how evidence will be collected), including opportunities for quantification.

d) When necessary, an explanation of the major deviations from the original examination plan as approved by the AAG and brought to the attention of the Performance Audit Management Committee.

e) The examination report (internal draft) presented to the Advisory Committee on completion of the examination phase for advice on the proposed observations, conclusions and recommendations. In presenting the report, the audit team identifies those points for which the team has gathered sufficient appropriate evidence and those points for which the team is still gathering evidence.

f) The audit report sets out the logic between the criteria, the analysis that was carried out, the observations that were made, and how these led to conclusions against the audit objectives. Supporting the audit report are the substantiation binders that contain extracts of the most pertinent and persuasive evidence for the audit report (chapter) content. (Further guidance on substantiation is provided in Chapter 3.)

Beyond these requirements, the auditor needs only prepare a short summary for each audit objective explaining how the methodology was employed, the nature and extent of evidence collected, and the analyses to which it was subjected.

4.78   Auditors need to exercise professional judgment in documenting evidence, but a guiding principle in exercising this judgment is that the audit files and working papers must either include the evidence, or such descriptions of the evidence examined as to allow audit team managers and other to examine all of the evidence that supports the audit report and to come to the same conclusions as the auditors. In addition to being complete, accurate and clear, the files and working papers containing the evidence need to be structured in a logical way to provide for ready access to the audit evidence.

4.78.1   Although the documentation will usually include most of the evidence itself, it is not always necessary to copy and file every document examined or to list detailed information from all such documents. For example, when evidence includes the auditee's records, it may be enough to note that a particular document has been examined and provide the information required to support the identification and location of the document (e.g., file number, date, location) should a subsequent need arise to gain access to it. In carrying out its audit activities, the Office is required to comply with the National Archives of Canada Act in its management of records. Further guidance on maintaining audit files and working papers is available in the "Guidance for Managing Audit Records in the OAG".

Sources and types of evidence

4.79   There are three broad sources for the information that constitutes audit evidence.

- *Information gathered by the auditors (primary evidence)*. Information can be gathered by the auditors directly by such means as interviews, surveys and direct inspection or observation. In these cases the auditors themselves have control over the methods employed and the quality of the information gathered. However, it must be emphasized that the auditors need the necessary skills and experience to apply the methods competently.

- *Information gathered by the auditee (secondary evidence)*. Auditors can use information gathered by the auditee — including the reports of internal audit and program evaluation groups, as well as information found in other auditee files, databases, reports and documents. Auditors **should** determine the quality of this information by evaluation and corroboration as well as by tests of the effectiveness of the auditee's internal controls over the quality of the information. Auditors can reduce tests of information quality if they find that the auditee's internal controls are effective.

- *Information gathered by third parties (secondary evidence)*. Audit evidence can also include information gathered by third parties. In some cases this information may have been audited by others, or the auditors may be able to audit the information themselves. In some cases third-party information cannot be audited, but its quality will be known (for example, many performance audits make use of data available from Statistics Canada). In still other cases, establishing the quality of third-party information may be impractical or impossible. The extent to which third-party information can be used as evidence will depend on the extent to which its quality can be established.

Further guidance on the use of secondary evidence from audit entities and third parties can be found in "Using Secondary Evidence Information in Performance Audits - A Summary Guide". (March 2006)

4.79.1   Audit evidence derived from the above sources can take a variety of forms. It may be:

- *Physical* — typically obtained by the auditor's direct inspection or observation, and supported by field notes, photographs or videotapes wherever possible. Examples include observing processes such as customs inspections or fisheries patrols, and inspecting assets to establish their existence and condition. An inherent risk of observation is that the observer's presence may alter what occurs in the setting, and as a consequence the evidence collected can be less valid. Thus the observer should aim to disturb the setting as little as possible. However, in some cases ad hoc visits to perform physical inspection or to observe certain conditions may be warranted and beneficial. (October 2004)

- *Documentary* — obtained from sources such as files, performance reports, databases, minutes of meetings, organization charts and correspondence. Documentary evidence can be obtained from the auditee or from third-party sources, and includes both electronic and hard-copy information.

- *Analytical* — obtained by the auditor by manipulating other types of evidence through analytical techniques such as computations, comparisons and content analysis of qualitative data. Examples of such techniques include comparisons using ratios, regression analysis of quantitative data, coding and systematic analysis of qualitative data, chronology analysis, and benchmarking against relevant standards.

- *Testimonial* — obtained from others through their oral or written statements in response to enquiries made by the auditor. Examples include interviews with staff of the auditee and surveys (either telephone or mail) of clients of a program or service.

  Enquiry has always been one of the significant techniques used in undertaking an audit. Careful preparation and briefing beforehand and debriefing and documentation afterwards improve the interview's effectiveness. How auditors structure enquiries depends on the circumstances (what kind of information is sought, who and how many are being asked, etc.). Every question should make sense to the interviewee, use vocabulary that is common to the interviewee and the auditor, and elicit the information required. A sound knowledge of the business and of the particular area of responsibility of the interviewee adds to both the preparation for an interview and to the interpretation of the responses as to their reliability and significance. Evidence from individual interviews ***should*** be corroborated with evidence from other people or other sources, whenever it is appropriate.

  Sharing the results of the interviews among the audit team is crucial. Good documentation, presented in an easily digestible and accessible form, can add significantly to the efficiency and effectiveness of the audit evidence from enquiry.

  The audit team ***should*** prepare formal minutes for all meetings involving entity staff that the audit team intends to rely on for evidence purposes.

  It is a matter of judgment and the responsibility of the PX to provide guidance to the audit team as to whether or not a particular meeting will require sign-off of minutes for evidence purposes. However, it is recommended that the audit team, at the beginning of the audit, informs the auditee that the record of certain meetings might be used as audit evidence and the approval of minutes by the entity will be necessary.

  In particular, if the meetings occur as part of the audit process (planning,

examination or reporting phases) and is considered evidence, the minutes of meetings *should* be prepared, reviewed and sent to the senior entity participants at the meeting for sign-off within five working days of the meeting. The following approach will allow the audit teams to:

- raise the quality of the evidence, particularly in those instances where no other source is available;

- provide a written record of what documents have been received, provided, and promised, which will permit teams to better monitor the receipt of information; and

- provide the interviewees with confirmation that their statements have been understood and recorded correctly.

The audit teams *should* use the following suggested format for notes and/ or minutes.

- The date and location of the meeting.

- The date of minute preparation.

- The approximate start and end times.

- The names and positions of each of the attendees.

- A summary of the purpose of the meeting.

- The questions asked and the answers to them.

- A list of actions agreed to at the meeting.

- A list of all documents identified, offered, or requested at the meeting.

- Signature of the senior entity representative.

- Signature of the senior OAG participant at the meeting and other OAG attendees if necessary.

Before being sent to the entity participants, the minutes *should* be reviewed and agreed to by the senior OAG participants at the meeting.

The audit team *should* ensure that the entity participants do not unduly delay sign-off of the minutes. In cases where sign-off delays or refusals have been encountered, the matter should be referred to the PX who will discuss the matter with the entity liaison officer. If the matter still remains unresolved, it should be referred to the AAG who will consider raising the matter with the organization.

At times, a meeting which was not judged as providing evidence may subsequently become important for evidence purposes. In this case, the senior OAG participant at the meeting *should* as quickly as possible formalize the minutes and seek their clearance by the entity.

Verbal assents or telephone conversations do not constitute a valid sign-

off. The audit teams need to obtain a signature from the senior entity participant on the minutes submitted or use the e-mail system by following the E-mail Use Policy and Guidelines. (Testimonial: October 2004)

4.79.2   Although evidence analysis follows evidence capture in chronological terms, the audit team members need to know what specific analytical techniques they will use before they start to design their strategy for capturing evidence. Otherwise, the auditors may find that the evidence collected is not susceptible to the appropriate forms of analysis. The audit team should use computer-assisted techniques for gathering and analyzing evidence whenever their use will increase the efficiency or quality of the audit.

4.80   When gathering information during the examination stage, the auditor thinks forward to the reporting stage, and the need to communicate the audit message in a persuasive manner. The auditor needs to look for opportunities to use case studies or visual aids, such as photographs, as these often provide a convincing way to illustrate an issue in the audit report.

4.80.1   The Office emphasizes the importance of quantification as a means to demonstrate the significance of its observations and recommendations. Experience has shown that a focus on quantification has to be built in at the planning stage.

Relying On and Using The Work Of Others

4.81   In the interests of audit efficiency, auditors *should* rely on the work of internal audit whenever possible in areas relevant to the audit. When the work of internal audit is the main or sole evidentiary support for particular observations, conclusions and recommendations, auditors *should* evaluate and corroborate the specific internal audit work on which they intend to rely. The purpose will be to determine whether the work meets the Office's standards with respect to sufficient appropriate evidence, such that an adequate basis for reliance exists.

4.81.1   Auditors can determine the quality of internal audit work by assessing the reputation, qualifications and independence of the internal audit team, as well as by reviewing audit reports, audit programs and audit working papers. The nature and extent of the evaluation and corroboration will depend on the significance of the internal audit work in relation to the Office's audit objectives and the extent to which the auditors will rely on it.

4.82   Where auditors use the work of internal audit (e.g., by including reference to findings from internal audits in the Auditor General's Report) the audit team *should* evaluate and corroborate the supporting evidence to assure the validity of the findings. Normally, when such matters are included in the report, the source of the findings is clearly indicated.

4.82.1   With the increasing emphasis on results-focused performance audit, as well as results-focused management across government, there is a growing potential for auditors to use the data and findings generated by departmental program evaluation and performance measurement groups.

4.82.2   As in the case of reliance on internal audit, auditors *should* evaluate and corroborate the work of program evaluation and performance measurement specialists (as well as others — such as experts on scientific and technical matters) to determine the appropriateness of audit evidence obtained from these sources. This assessment will be based on such factors as the knowledge, experience, professional standing and independence of the professionals concerned. Where appropriate, auditors will also need to have a good understanding of the standards, methods, data sources and significant assumptions that have been used by these professionals.

4.82.3   Other specialists whose work is relied upon may be members of the Office staff or contractors used by the Office to provide expertise in an area relevant to the audit. The specialists who are members of the audit team or of other groups in the Office are covered by the requirements for audit teams in Chapters 2 and 3 of the Manual in relation to objectivity, independence, knowledge, competence, supervision and review of work. For the individuals contracted by the Office, the audit team *should* assess their knowledge, competence, integrity and independence in the relevant area of expertise, and evaluate and corroborate the reasonableness and significance of the specialist's work and findings for the audit.

Developing audit observations

Audits should involve objective evaluation of the evidence against the criteria to develop observations and conclusions.

4.83   The audit team gathers evidence in order to support a description of an activity or program under review and make an assessment of the actual performance of an activity or process against the audit criteria. Where the auditor finds that performance does not meet the criteria, further investigation *should* be carried out to gain assurance that any resulting observations and conclusions are significant, fair and well-founded, and that recommendations have the potential to result in important improvements to performance, value for money or accountability.

4.83.1   Gathering additional evidence and/or discussing the matter with auditee management, may be necessary to:

- determine whether the deficiency is an isolated instance or represents a generic or systemic problem;

- assess the impact or potential impact of the deficiency on results. Whenever possible, the effect of the problem *should* be quantified to illustrate the "so what" in the audit report;

- identify the cause of the deficiency to gain assurance that recommendations will be appropriate;

- determine whether the problem can be fixed by the auditee, or whether it results from circumstances beyond its control;

- gather further evidence (cases, statistics, photographs, etc.), where appropriate, to illustrate the nature and importance of the issue;

- determine who is affected by the issue (for example, other units in the organization, central agencies, third parties); and

- determine auditee management's awareness of the issue. If management is aware of the issue and has corrective action under way, the issue may have less significance for reporting purposes. Certainly it will change how the matter is reported.

4.84   The comparison of evidence against criteria, and further investigative work into the nature and significance of the issue, will result in the development of observations. Audit observations confirm satisfactory performance or disclose the level, nature and significance of deviations from criteria, who is responsible, and may disclose the cause and effect of the problem. In reaching their decisions on observations, auditors may need to look at the collection of interrelated facts and evidence assessing them against the corresponding criteria as well as considering them individually.

4.85   The observations, in turn, are the basis for forming conclusions against each of the audit objectives. The auditor should assess the significance of the observation in relation to the audit objectives. In concluding against an audit objective the auditor will use their professional judgment. The audit conclusions and the major considerations and rationale for them are approved by the AAG/ CESD and reviewed by the Audit Advisory Committee.

Developing recommendations (May 2005)

> **Audits should include recommendations to point to the direction in which positive changes can be made for the most serious deficiencies reported. Recommendations are not required for each audit finding. (May not apply in all audit notes).**

4.86   Recommendations generally relate to strategic issues. Recommendations address areas where there are significant risks to the entity if deficiencies remain uncorrected. Audits include recommendations where the potential for significant improvement in operations and performance is demonstrated by the report findings. The most serious deficiencies, not each audit finding, are to be addressed.

There may be circumstances where making a recommendation is not the best way to achieve the intended result. In those circumstances, exceptions to the audit policy *should* be justified on a case-by-case basis and approved by the AAG. The audit can still make a major contribution in such circumstances by bringing a highly professional analysis of the situation to the attention of the audited entity and Parliament. Where corrective action is underway, it is good practice to point out that such actions are underway.

4.87   Writing a good recommendation is not an easy task. Good recommendations meet several criteria. The criteria relate to the audit process, the format, and to the substance of the recommendation.

Recommendations that lend themselves to follow-up are:

- fully supported by and flow from the associated observations and conclusions;
- aimed at correcting the underlying causes of the deficiency;
- addressed to the organization with the responsibility to act on them.

Clear recommendations are:

- succinct, straightforward and contain enough detail to make sense on their own;
- broadly-stated (i.e. stating what needs to be done while leaving the specifics of how to entity officials);
- positive in tone and content.

Action-oriented recommendations are:

- presented in the active voice;
- practical (i.e. able to be implemented in a reasonable timeframe, taking into account legal and other constraints);
- cost-effective (i.e. the costs of implementing them will not outweigh the benefits), and they will not increase the bureaucratic burden;
- results-oriented (giving some indication of what the intended outcome is, ideally in measurable terms);
- able to be followed-up (i.e. able to determine whether it has been acted upon);
- consistent and coherent with the other recommendations in the chapter and mindful of recommendations made in prior chapters.

4.88   To enable the auditors to develop action-oriented and practical recommendations and to provide entity officials with the time required to prepare a response and develop an action plan, the audit team *should* seek management's views, as early as possible, normally at the end of the examination phase. There *should* be consultation with entity representatives as to the risks they are facing and managing. Entity officials, including the Deputy Head, *should* be briefed on recommendations.

Recommendations *should* be included as an agenda item for the advisory committee meeting held at the end of the examination phase.

In preparing to consult entity officials and the audit advisory committee members, the audit team *should* brief the Assistant Auditor General. To that end, the team could document in a working paper on each serious deficiency identified, the criteria applied, the observations made and the identified causes that lead to the recommendation. For each proposed recommendation, the audit team needs to consider the effect that offering such a recommendation may have on the auditor's objectivity in subsequent audits of the same entity.

4.89   An area of high sensitivity is a recommendation for changes to legislation. If observations are pointing to the need for changes to legislation, the matter *should* be discussed with Legal Services.

Entity responses to recommendations

4.90   We encourage and will publish responses to each recommendation in a chapter, indicating whether there is:

- agreement with the recommendation and a commitment to undertake action;

- agreement with the recommendation and an explanation as to why action cannot be taken at this time; or

- disagreement, with a brief explanation.

The auditor's may point to the direction in which positive changes can be made; however, detailed plans and implementation of changes are the responsibility of management. Entities should be encouraged to include a timetable and specific steps to describe how the recommendation will be addressed.

4.91   When recommendations are made to entities other than those for which the audit Principal is responsible for, he/she should advise the entity Principal of recommendations that apply to their entity.

The responses provide the Office and the Public Accounts Committee with a basis for follow-up of the audit.

4.92   The response is typically provided to us by a Deputy Head or delegate who is acting on behalf of a Deputy. When more than one entity has been the subject of the audit, one joint response, or multiple responses with each entity being clearly identified are acceptable. In general, government-wide recommendations are to be avoided. However, if it is not possible, a lead department or agency is to be identified and that role should be accepted by the entity. The recommendation should specify what entity will lead the implementation. Such recommendations can then be responded to by the lead organization on behalf of the government.

4.93   We have established limits on the content and publication of entity responses, and entities should be encouraged to comply with the following:

- Responses are to be short and clear, normally no more than two paragraphs. Where appropriate, we will publish an overall entity action plan that responds to our observations and recommendations.

- We do not normally publish entity responses when there are no recommendations or when the audit is a follow-up of previous work and there are no new recommendations.

- Responses must be received at least seven weeks before tabling day in order to be published with the report. We also need the entity response seven weeks prior to tabling in order to meet commitments to brief the appropriate officials of central agencies.

- We do not print entity responses or comments in the Main Points or throughout the chapter. Nevertheless, we do briefly describe the entity commitment (or non-commitment) to take action in the Main Points.

- We discourage global comments as a regular feature of entity responses.

4.94   Audit teams *should* ensure entity officials are aware of the limitations to responses to recommendations, and encourage them to comply. If exceptions to these limits are requested, they are to be discussed with the AAG. We may, from time to time, wish to include a global response to a study to make the government position available to the reader. Also, entities may wish to publish an action plan to correct the deficiencies noted in the report. This would be acceptable if it assists the accountability or provides more information about the benefits to be achieved by the recommendations, and are limited to one page. The final decision on an entity response in these instances rests with the Office and must be approved by the Performance Audit Management Committee (PAMC).

4.95   The Principal's draft chapter should be presented to the entity as required by the agreed schedule. In the case of audit notes and follow-up, this time frame may be shortened but sufficient time must be given to the entity to consider and respond to the issues.

4.96   The audit report stands on its own merit. We do not respond to the comments of the entity in the report. However, we will not publish an entity response or comment that we know is materially wrong or misleading. Where we disagree with an entity position, we will make our position clear in subsequent Public Accounts Committee hearings. If there is substantial disagreement between the entity and the auditor we will highlight this in the Main Points of the chapter.

4.97   DELETED

Audit conclusions

Audits should have necessary and sufficient observations to support conclusions made against each audit objective.

4.98   The process of dividing the audit into component parts does not obscure the need to conclude in relation to the overall audit objectives. Planning decisions have identified lines of inquiry for the audit. Audit evidence has been gathered and performance in the critical areas has been assessed against criteria. Actual performance has been found to be satisfactory or deviations from the criteria have been identified. Further investigations of the deviations from satisfactory results or good practice have led to the development of observations.

4.99   Audit observations confirm satisfactory performance or disclose the level, nature, and significance of deviations from criteria, who is responsible, and the cause and, if determinable, effect of the problem on the subject matter of the audit.

4.100   The auditor *should* assess the significance of the observations in relation to the audit objectives. At the extreme ends of the performance spectrum — fully satisfactory performance or highly unsatisfactory performance — concluding against the overall objective may not pose a problem. In these cases the audit report would contain an unqualified (positive) conclusion or an adverse conclusion, respectively. An adverse conclusion is used when the significance and extent of the deviations from satisfactory performance are pervasive. In the majority of cases, however, the auditor will have to use judgment in forming a qualified conclusion. Qualified conclusions are made when there are significant deviations from satisfactory performance for one or more aspects of the subject matter. A qualified conclusion contains an "except for" statement, either stated explicitly or implicitly, to disclose the deviations in relation to the audit objectives.

4.100.1 The audit conclusions and the major considerations and rationale for the conclusions are reviewed with the AAG/CESD and the Audit Advisory Committee.

The audit report

Audits should result in a report that meets the Office's Reporting Policies.

4.101   Having completed the field audit work, developed the audit observations, and concluded against each audit objective, the auditor is in a position to draft a report that must meet the performance audit reporting requirements.

5

Performance Audit Reporting Policies

Each audit should result in a report that clearly communicates to the reader:

- **the objectives, nature, time period covered by the audit, and scope of the audit, including any limitations;**

- **the professional standards and policies used;**

- **the level of assurance provided by the report;**

- **a description of the program or activity that was audited, including management's responsibilities;**

- **the criteria used, their source, and any disagreements with management on their suitability; (May 2006)**

- **the observations made;**

- **the recommendations made to point to the direction in which positive changes can be made (may not apply to all audit notes);**

- **management comments (if provided) including planned action in response to the audit and any differences of opinion; and**

- **the conclusions reached against each audit objective including any qualifications, where applicable.**

5.1   The reputation and credibility of the Office depend to a great extent on the quality of the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. The reports are what the client, media and public see of the work of the Office. Consequently, they have to meet the highest attainable standards for content and presentation. In preparing the report, the audit team *should* keep in mind:

- the end use of the report — that is, the use made by the parliamentarians in their scrutiny of government operations; and

- the scope of the Office mission to promote accountability and best practices in government operations.

5.2   The purpose of the report is to achieve positive change. The requirement for clear communications means that messages need to be:

- clear and precise and written in plain language to ensure that the reader will understand what the report is trying to achieve;

- convincing and their importance highlighted for the reader;

- fair and presented in an unbiased tone, noting where management has taken actions to correct the deficiencies and pointing out exemplary performance; and

- only dealing with matters of significance.

Key contents

5.3   The following information sets out the key contents of the report and provides an explanation for their inclusion:

Objective

5.4   To clearly set out the key questions about performance that the audit sets out to answer (such as "to determine whether the program was cost-effective...") as well as the issues related to non-audit objectives (such as "to provide information on...").

Timing

5.5   To inform readers of the period of time for which assurance is being given in the chapter and to assure them that the report is dealing with issues of current interest.

Nature and scope

5.6   To set out what was audited, the extent of audit and any limitations. When the objective of the audit is to conclude on whether an entity has complied with specified authorities or whether its transactions were carried out in compliance with specified authorities, the scope of the audit will state the authorities against which compliance is being reported.

Professional standards

5.7   To provide confidence that the audit was conducted in a professional manner. Accordingly, all our performance audit reports to Parliament state the following:

> **"All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines."**

Level of assurance

5.7.1   To state the level of assurance that is being provided by the work. The work reported in performance audit chapters and audit notes is performed at an "audit" level of assurance as opposed to a "review" level of assurance. An audit level of assurance provides a high but not absolute level of assurance and allows the audit team to make a conclusion on the subject matter against the audit objective(s) with a high degree of confidence. Audit level of assurance is obtained by designing procedures so that the risk of an inappropriate conclusion is reduced to a low level through procedures such as inspection, observation, enquiry, confirmation, computation, analysis and discussion.

For a review level of assurance the procedures to reduce risk to a moderate level are normally limited to enquiry, analysis and discussion. When the Office conducts any work at a review or moderate level of assurance, the team would provide a lower level of assurance by indicating that, based on the procedures performed, nothing has come to their attention that causes them to believe the subject matter does not conform in all significant respects with the criteria.

The level of assurance for audits is indicated in the "About the Audit" section of the audit report chapter by stating an audit has been conducted that provides a high level of assurance on the observations and conclusion. In a like manner, the level of assurance for a review would be indicated in the "About the Review" section of the review report by stating a review has been performed that provides a moderate level of assurance on the observations and conclusion.

Description of the program or activity

5.8   To provide context and background material to allow the reader a sufficient perspective on the audited activity to understand the issues.

Management's responsibilities

5.9   To advise on management's responsibility for performance and results in the audited area.

Criteria

5.10   To point out the basis of measuring performance and the source of the criteria as well as any disagreement with management on the suitability of the criteria chosen.

Performance observations

5.11   To report the extent to which performance satisfied the criteria, and to present sufficient, relevant and appropriate analysis and information to ensure an understanding of the issue. The observations point out the significance of the issue by describing its impact on the quality of performance or by quantifying the

problem. They also point out, wherever possible, the effect on results. The issue is to be presented in a convincing but fair way. The underlying cause of the problem is described and visual aids are incorporated, wherever possible, to illustrate the nature of the problem.

Recommendations

5.12   To point to the direction in which positive changes can be made when there are most serious deficiencies.

Management comments

5.13   To include the pertinent views of management on the report observations, conclusions and recommendations and to point out what actions are being taken to correct the problems. Any disagreements are to be noted.

Conclusions

5.14   To point out the assessment of performance against each audit objective, which may include qualifications.

Reporting non-compliance with authorities

5.14.1   As noted in 5.6, certain audits may be designed to express an opinion on specified authorities. In other cases, an audit may report only instances of non-compliance with authorities that the audit team observed in the course of discharging their audit responsibilities. The instances of non-compliance may be reported to Parliament in an entity or government-wide report chapter, or in an audit note. In either case, when reporting instances of non-compliance with authorities, there are specific requirements that the audit team should include in their report:

   a)   describe the context in which the instances of non-compliance with
        authorities are being reported by:
   - setting out the requirements of the audit mandate as set out in the
     audit scope;

   - identifying the entity or portion thereof being reported on;

   - describing the approach followed by the auditor in selecting matters
     to be audited; and

   - stating that the audit of the matters reported was performed in
     accordance with appropriate professional standards;

   b)   caution the reader against drawing conclusions as to compliance or non-
        compliance with respect to matters not reported; and
   c)   for each reported instance of non-compliance:
   - describe the matter being reported together with, if relevant and
     practicable, the monetary effect;

- specify the authority or authorities not complied with; and

- state that, in the auditor's opinion, the matter was not in compliance with the authority or authorities specified.

A high-quality report on time

5.15 From the start, the audit was designed to produce a high-quality report on time. The examination plan identified the timing of the audit, key milestones and control points. It was developed to allow the quality of the key audit decisions and progress of the audit to be monitored throughout the audit. The following steps occur in the process of finalizing the audit chapter:

Clearance of field work

5.16 The audit team initiates clearance of audit facts and results of tests.

Internal draft

5.17 The draft chapter is prepared on completion of the fieldwork. It is used to:

- obtain views of the audit advisory committee, Assistant Auditor General (AAG)/Commissioner of the Environment and Sustainable Development (CESD) and Quality Reviewer on the significance and ordering of the issues and whether the report message "hits the mark";

- start the edit, translation, textual and presentation review by the Reports Group; and

- obtain approval of Legal Services for initiating report clearance with entity staff.

The vehicles used for this purpose may be fact sheets, point form report, working papers and the initial draft. The purpose is to confirm the facts, obtain management's reactions to the observations and views on corrective actions, and to ensure that the report contains no surprises. (October 2004)

The Principal's draft

5.18 The Principal's draft is to be as close to the final chapter or audit note as possible. It is used to obtain:

- AG's comments;

- AAG/CESD approval;

- additional challenge, advice and counsel from the audit advisory committee or audit notes committee;

- Quality Reviewer's review, and FRLs', PL-Performance Audit, other PLs (i.e. for audit notes resulting from work on other Office products) and SMEs, as appropriate, and regional principals' review(s) and approval of matters within their area of interest;

- approval from Legal Services with respect to mandate and third party;

- substantive review and edit from the Reports group;

- third party clearance, where applicable (see below); and

- entity comments.

The audit team will provide the Principal's draft for the purpose of clearance in the official language(s) requested by the entity in accordance with the OAG Policy on Bilingual Drafts of Performance Audit Report Chapters. (October 2004)

Chapter Main Points

5.19   All chapters contain a Main Points section that summarizes the key messages from the chapter. The Main Points *should*:

- serve as a stand-alone summary for the benefit of parliamentarians and other busy readers who may not read the entire report;

- highlight the most important information about an audit in a way that is accurate, clear, coherent, and concise;

- be stated as clearly in the PX Draft as they will be in the media release; and

- allow the reader to easily grasp what we examined, why it's important and what we found. (October 2005)

5.20   The Main Points are divided into four parts:

- **What we examined** to summarize in a few clear sentences what the audit looked at. In certain exceptional circumstances where there might be confusion, this section should also explain what we did NOT look at.

- **Why it's important** to make the case for the relevance and significance of the audit. Readers should be told why they should care about how well the government is doing, and why they should care about the overall topic.

- **What we found** to state the most significant findings of the audit, which should rarely exceed four bullet points. Bullets are not preceded by a general, umbrella finding—each bullet sets out a specific finding. N.B. This should be expressed in terms of the facts we found, not as something that needs to happen or what the entity could be doing better.

- **The auditee has responded.** A brief reference to the entity's acceptance of recommendations and any action planned or under way. Any area where the Department disagrees is indicated here (the topic, not the nature of the disagreement). (October 2005)

Further guidance on chapter Main Points can be obtained from the FRL Communications and Guidelines issued by the Office.

5.21   Main Points are an integral part of the chapters, and are submitted to the entity at the PX Draft stage, with the body of the chapter. Its maximum length is 2 pages. While the Main Points are discussed with the Department, we retain the right to phrase them as we see fit.

5.22   The writing of the Main Points benefits from the writing of the press release: experience has demonstrated that in itself, the process of telling the story for the press release exposes any ambiguity, and forces the authors to think clearly and to use simple words.

Transmission draft

5.23   After the Principal's draft has dealt with entity comments and is signed off by the designated reviewers, it is submitted to the Deputy Minister/Head of the audited organization as a Transmission draft chapter or audit note.

The Transmission draft will be provided to the entity in both official languages simultaneously or within a week of each other in accordance with the OAG Policy on Bilingual Drafts of Performance Audit Report Chapters.

It is the audit Principal's responsibility to ensure that the Quality Reviewer is consulted on a timely basis and receives the information needed to perform his/her review. The work of the Quality Reviewer should always be completed before the Transmission draft chapter or audit note is forwarded to the entity.

The transmission draft is used to:

- obtain Deputy Minister/Head of the audited organization comments, planned corrective actions and any disagreements;

- incorporate departmental comments in the chapter or audit note (may not apply to all audit notes); and

- obtain sign-off from the Principal, Quality Reviewer and AAG/CESD on quality.

5.24   The Performance Audit Management Committee is kept apprised of progress and potential quality problems throughout the audit by the Principal and the Report Tracker. The audit teams are responsible for preparing report chapter substantiation binders for use in verifying information in the report chapters. The binder can be used by the Reports Group to check numbers, tables, organizational information, terminology and other data contained in the chapter.

Third party clearance

5.25   "Third party" is defined as any organization or person outside of the department or agency that is the subject of the audit report. For greater certainty, this includes other government departments, central agencies, Crown corporations, suppliers or beneficiaries of government programs, or any other organization, individual person or group of persons mentioned in the report. The Office owes third parties a duty of care to ensure accuracy and fairness of references. Further guidance is provided under Third Party References in Chapter 8.

Confidentiality and security

5.26   All material related to audit reports ***should*** be kept confidential and secure in accordance with the Office's Security Policy. Draft chapters and other material used to disclose audit findings to departments or agencies ***should*** be marked "Protected Draft for discussion purposes only" and clearly indicate that they are the property of the Office of the Auditor General. Further guidance is provided under Security of Information in Chapter 8.

6

Audit Follow-up Policies (May 2005)

Follow-up Audit

> **Issues or recommendations that were presented in previous reports and that are of continuing interest to Parliament and/or that pose a significant risk should be re-audited.**

6.1   The Status Report presents the results of audits of selected issues and recommendations presented in previous reports. This report provides a high level of assurance. Consequently, performance audit methodology *should* be applied throughout the planning, examination, and reporting phases of the follow-up audit. Since the decision to go ahead with a follow-up audit depends on parliamentary interest and/or significant risk, the decision about the timing of the follow-up audit will vary accordingly. The One-pass-plan *should* take the timing into consideration.

6.2   The focus of the follow-up audit is to determine whether the problems or issues originally identified have been resolved or not. Issues may evolve with time; focussing strictly on specific actions taken to address recommendations may not provide an accurate picture, as recommendations may not be applicable to the new circumstances or the evolution of the issue. The purpose of the follow-up audit is to determine the progress achieved in addressing the original recommendations and resolving the issues.

Planning the follow-up audit

6.3   Planning the follow-up audit is essential to the success of the undertaking. Some initial planning is required, as not all recommendations or issues raised in the original audit report should be re-audited, and as new issues may have arisen. Many questions arise when planning the follow-up audit. The main ones are as follows:

- Did the entity have enough time to address the issues raised originally?
- Are the recommendations still relevant?
- Should the audit only address the implementation of the recommendations, or should the issues themselves be re-audited?
- Have the initial problems or issues identified evolved with time?
- From a risk perspective, what are the key issues for re-audit?
- What does the audit team know, in relation to the previous audit?

Selecting issues to be re-audited

6.4   Concerns raised by parliamentarians following the original audit can provide guidance to the audit team about what issues should be selected for re-audit. The audit team should review debates of the Public Accounts Committee and the relevant standing committees of the House and the Senate, and questions raised in the House of Commons to determine key concerns and to determine what should be re-audited.

6.5   As the audit team reviews the situation related to the issues to be re-audited to develop a new audit plan, the team may find that issues have evolved; if this is the case, the team may need to redefine the issues. The audit team may also identify new issues and may decide that it is important that they be assessed and reported to Parliament. Issues from more than one chapter could also be included. Under these circumstances, the audit team may need to amend or prepare new objective(s) and criteria.

Seeking the views of the audited entity

6.6   When amended or new objective(s) and criteria are required, the audit team must seek the views of the audited entity (see paragraph 3.15).

6.7   The audit team should use the Guide to Assess Entity Progress, which the Office regularly uses to annually assess progress in implementing recommendations. This Guide will assist in determining whether or not we are satisfied with the progress achieved (see paragraphs 6.16 to 6.28). The audit team should discuss the criteria in the Guide with the entity early in the audit. The representatives of the entity should be aware of the criteria used to assess progress; so discussions with the entity are important at this stage.

Resourcing the audit

6.8   Ideally, the original audit team is responsible to carry out the follow-up audit. However this may not always be possible.

6.9   The need to involve members of the audit team that conducted the original audit may depend on the complexity of the issues to be re-audited. If the issues that will be re-audited are complex, the audit Principal should consider making efforts to include members from the original performance audit in the current audit team.

6.10   Under certain conditions, it may not be possible for any of the previous team members to participate in the follow-up audit. In the event that the audit team is comprised primarily of new members, the audit Principal and/or Director can organize a meeting with members of the previous audit team, if they are available, when the follow-up audit is about to begin. This meeting can provide a comprehensive briefing/orientation for new team members on the audit issues and the previous audit approach.

Advisory committee

6.11   When the issues being re-audited are the same as those of the original audit, the audit Principal and/or Director may decide, at the planning stage, to consult the advisory committee members on the timing and the approach proposed by the audit team. However, when the approach is essentially the same as for the original audit, this consultation may not be required.

6.12   A risk-based assessment of the original issues audited may identify a reduced number of key issues for re-audit. If this situation occurs, it should be an agenda item for consultation with advisory committee members prior to the examination phase of the follow-up audit.

6.13   At the reporting stage of the re-audit, the focus of the consultation may be different. If new issues have not been included in the scope of the re-audit, the consultation will concentrate on whether our assessment of the entity's actions with regard to the recommendations made in the original audit is reasonable.

Recommendations

6.14   In order to take the Office annual monitoring policy into account, the audit team should not reiterate previous recommendations in the Status Report chapter. Reiterating the recommendation would provide the entity with an additional five to six years to implement it. In most instances, this is not desirable. When reporting on new issues, recommendations can be made to address these issues (see paragraphs 4.86 to 4.97). As for all performance audits, an entity response to the recommendation may be included in the report.

Chapter Main Points

6.15   The chapter Main Points are essentially the same as for all performance audits (see paragraphs 5.19 to 5.22). However, the first paragraph of the follow-up audit should provide an overall opinion as to whether we are satisfied or not with the progress achieved. To that end, the Guide to Assess Entity Progress (see paragraph 6.7) can be used for each recommendation audited to arrive at an overall conclusion as to satisfaction.

Annual Monitoring of Progress in Implementing Recommendations

Progress in implementing all recommendations from previous reports should be assessed for a maximum period of five years, or until the issue is resolved, or obsolete.

6.16   Monitoring work is neither an audit nor a review engagement, since it provides no assurance. The primary purpose of monitoring progress is to keep departments focussed on the need for corrective action in response to previous Office recommendations; to allow the audit team to maintain knowledge of the

entity's business; and to provide information for the Office Departmental Performance Report. It also allows the Office to provide additional information to parliamentarians on request.

6.17   Monitoring work should be based on self-reporting by the audit entity and subsequent review by the audit Principal. This review is to assess whether an entity's claims are consistent with our existing knowledge of its business; it also assesses whether or not, given complexity and resources assigned, the entity has made reasonable achievements.

Applicability

6.18   This policy applies to the monitoring of all recommendations from performance audits, and audit notes including those of the Commissioner of the Environment and Sustainable Development (CESD). If a chapter does not contain recommendations, monitoring may still be warranted. The audit Principal is expected to decide whether observations raised in the original chapter require monitoring at the time the audit is entered into the recommendations database.

6.19   When some recommendations or issues are the subject of a follow-up audit, an update from the entity about what stage it is at in implementing the recommendations may not be necessary. If the follow-up audit work is almost completed, it is usually not necessary to ask the entity for an update about what stage it is at in implementing the particular recommendations that are part of the follow-up audit. The audit Principal can then exclude those specific recommendations from the ones that are sent to the entity for an update.

Reporting media

6.20   The results of monitoring are reported in the Office Departmental Performance Report, which is tabled in the House of Commons in the fall of each year.

Responsibilities

Recommendations database

6.21   The recommendations database holds all monitoring data. It consists of the following:

- recommendations from all audits;
- data classifying each recommendation such as recommendation identifier, difficulty rating, impact area, focus area;
- whether the entity accepted the recommendation;
- the level of Parliamentary endorsement of recommendations;
- self-reporting returns from each entity;
- the audit Principal's assessment of entity progress; and

- the rationale for the assessment.

6.22   Strategic Planning and Professional Practices is responsible for the database, specifically for

- creating the database and its maintenance as a data system;

- providing audit Principals with annual call letters to entities to update the database. The annual call letter includes chapters that were tabled one to six years ago.

- providing the Executive with any required reports and returns from the database;

- monitoring whether the database is up-to-date and complete, and informing the Executive of any shortcomings.

6.23   The entity Principal is responsible for obtaining self-reporting returns from entities and, where applicable, communicating the entity's responses to the audit Principal.

6.24   The audit Principal is responsible for updating the database in a timely fashion in response to the call letter from Strategic Planning and Professional Practices.

Tabling

6.25   After an audit report is tabled, Strategic Planning and Professional Practices is responsible for the input of the recommendations into the recommendations database.

6.26   The audit Principal is responsible for identifying the following:

- an assessment of whether or not the entity accepted the recommendation. This is not merely whether the entity claims to have accepted the recommendation, but also the Principal's full assessment of whether the response constitutes a substantive acceptance;

- observations where the audit Principal would like to monitor progress;

- the impact area and the Auditor General focus area of each recommendation;

- the expected difficulty for the entity of implementing the recommendation as outlined in the Guide to Assess Entity Progress (see paragraph 6.7); and,

- any existing recommendations that should be coded as "obsolete" in the recommendations database because new audit work or circumstances have rendered them redundant or out-of-date.

Hearings

6.27   Parliamentary Affairs is responsible for reviewing Public Accounts Committee reports that result from the hearings on audit reports, requesting input from the audit Principals, assessing the level of endorsement of each recommendation by the Committee, and entering their assessment into the recommendations database.

Annual monitoring steps

6.28   To ensure uniformity, the annual monitoring exercise should be carried out in a consistent manner. Detailed guidance on the steps to be followed is provided in the recommendations database.

7 *Study Policies*

Background

7.1   Performance audits, annual audits and special examinations are the pre-dominant forms of examination used by the Office to fulfill its legislative mandate. Studies provide a form of inquiry that may be more appropriate in some cases. For example, a decision to do a study as an alternative form of inquiry may be taken when the nature of the subject matter is not well understood or there is an absence of audit criteria, or both.

7.2   The Office's Strategic Plan sets out a vision that applies equally to studies and audits. The vision is to serve Parliament and the well-being of Canadians by promoting, in all our work for Parliament accountable government, an ethical and effective public service, good governance, sustainable development, and the protection of Canada's legacy and heritage.

7.3   Studies are normally more descriptive or exploratory in nature than audits. Studies usually concentrate on one or more of the following elements: describing a subject or developing an information base, exploring that subject or information base, and developing a method to assess that subject or information base in the future. These elements can be studied all at once or over a series of years.

7.4   Because of the more descriptive or exploratory nature of studies, the objectives of studies can be different than audit objectives. Examples of the objectives of studies are to:

- describe a subject;
- identify lessons learned and good practices;
- draw attention to a certain area of concern or leading thinking;
- identify issues related to a certain area;
- develop a common understanding of a subject; and
- identify expectations or criteria to use in future examinations.

A comparison of policies between performance audits and studies

7.5   Studies are performed with the same degree of professionalism as other Office products. They have the same systematic, disciplined, evidence-based approach. The process they follow includes planning, examination and reporting. The requirements for evidence (Section 4.74 to 4.80 of the Performance Audit Manual) fully apply, i.e. evidence should be appropriate (relevant, reliable and valid) and sufficient. (October 2004)

7.6   Study policies are outlined in Annex 1. Studies have the same general and conduct policies as performance audits. Study policies for examination, reporting and follow-up differ somewhat from performance audit policies.

7.7   There are three key differences between Performance audit and study examination policies.

- Studies are not required to have objectives that can be concluded against. In some cases the objective may be to describe or explore a subject. In those cases the conclusion would outline the results of that exploration rather than concluding against an objective.

- Studies should not have criteria and consequently are not required to have an evaluation against those criteria. However, an objective of a study can be to develop criteria.

- Studies should rarely include recommendations. However, in some rare instances, specific recommendations could be appropriate. For example a study could recommend that the government study something further or that a criterion or set of criteria be endorsed. (October 2004)

7.8   There are four key differences between Performance audit and study reporting policies.

- Studies do not have to disclose criteria used and any disagreements with management on those criteria because studies should not have criteria.

- Recommendations do not have to be reported because studies are not required to include recommendations. They may be included in the rare cases where they are deemed appropriate.

- Studies are not required to include management comments unless it is deemed appropriate to include them.

- Studies are not required to report on conclusions reached against study objectives. (October 2004)

7.9   Studies do not have to be followed-up. (October 2004)

Practice Expectations and Performance Audit Quality Management Framework

7.10   Studies share the practice expectations that are common to all product-lines found in Chapter 8 of this manual. They also share the same Performance Audit Quality Management Framework found in Chapter 9.

7.11   Studies have a similar process control framework to audits found in Figure 6 of this manual. However, when the study team submits their chapter proposal for approval by the Performance Audit Management Committee, it should be clear that the team is proposing a study rather than an audit and why the study is the more appropriate form of inquiry. The audit team should not combine a study and an audit in the same chapter. (October 2004)

Quantification

7.12   DELETED. (October 2004)

Annex 1

Study Policies

General Policies

- The Code of Values, Ethics and Professional Conduct and all other Office policies should be adhered to in all Office activities.
- All studies should be carried out in accordance with the Office's study policies described below.

Study Conduct Policies

The study team should:

- exercise due care in carrying out the study;
- be made up of individuals who have an objective state of mind and are independent;
- collectively have knowledge of the subject matter and the proficiency necessary to fulfill the requirements of the study;
- ensure proper supervision of all its members;
- seek entity management's views about critical elements of the study;
- obtain sufficient and appropriate consultation and advice throughout the study;
- maintain appropriate documentation and files; and
- deliver clear, persuasive and effective communications to Parliament and other stakeholders.

Study Examination Policies

Each study should have:

- clear objectives;

- a clear scope that focusses the extent, timing and nature of the study;

- study questions selected on the basis of relevance to the Office's mandate, significance and suitability to study;

- sufficient appropriate evidence to support observations;

- objective evaluation of the evidence to develop observations;

- sufficient appropriate evidence to support conclusions; and

- a report that meets the study reporting standards described below.

Study Reporting Policies

Each study should result in a report that clearly communicates to the reader:

- The objectives, nature, time period covered by the study, and scope of the study, including any limitations.

- The professional standards and policies used.

- A description of the program or activity that was studied, including management's responsibilities.

- The observations made.

- Conclusions reached. (October 2004)

Study Follow-up Policy

DELETED (October 2004)

8
Performance Expectations

Introduction

8.1 Although many practices are similar in purpose across product-lines, they often are sufficiently different in application to warrant tailored discussion in each product-line manual. This allows a full description of the audit processes, and facilitates the use of the individual manuals. For example, compliance with authorities is common to all product-lines, but the approach to auditing and the weight given to these matters varies in different types of audits.

8.2 This section describes the practice expectations that are truly common to all product-lines. Many of these expectations are guided by other Office policies, such as the Code of Values, Ethics and Professional Conduct or the Office Security Policy.

How to use this section

8.3 *Should* statements are expected practices, and require Assistant Auditor General (AAG) approval to override. Expectations derived from other Office policies are linked electronically to the other policy statements.

8.4 This section sets out these common expectations under the following headings:

- Audit management
- Project management
- People management at the team level
- Continuous improvement

Audit management

Authority: requests for services or audits

8.5 In recent years, the Office has developed a more interactive relationship with parliamentary committees, audit committees and management in our efforts to promote answerable, honest and productive government. As a result, there have been an increasing number of requests for audits and other services from the Governor in Council, parliamentary committees, audit committees and

management. While it may be desirable to accommodate these requests, the Office has limited resources. It is important that such work does not negatively impact on our primary mission of carrying out independent audits and examinations for the House of Commons.

8.6   Requests for services or audits need careful consideration as to the appropriateness, legality, and resource implications of such requests.

8.7   Where requests for work are received, audit Principals *should*:

- Obtain the approval of the AAG/CESD before making any commitment to the requesting organization;

- Refer requests for work requiring authority under Section 11 of the *Auditor General Act* or under the Financial Administration Act to Legal Services; and

- After authorization to accept the request, confirm in writing the terms and conditions of the work to the requesting organization.

Access to Information

8.8   The *Auditor General Act* and the *Financial Administration Act* provide for access to information needed to report, as required by the acts. The acts entitle the Auditor General to free access at all convenient times to this information. The Auditor General is also entitled to receive from members of the public service and Crown corporations, where she is appointed auditor or special examiner, such information, reports and explanations, as the she deems necessary. The Auditor General decides the nature and type of information needed to fulfil the responsibilities set out in legislation. These are very strong provisions, which prevail against all other acts of Parliament, unless they expressly limit access and refer to the appropriate sections of the *Auditor General Act* or *Financial Administration Act*. Further details on this can be found in the "Guidance for the Access to Entity Information".

8.9   At the same time, however, the Office also has an obligation to ensure that it does not disclose, or act in a manner that unintentionally results in the disclosure of entity information that would not otherwise be accessible.

8.10   **Office requests for Cabinet documents.** Required information may sometimes be contained in Cabinet documents, which are confidences of the Queen's Privy Council of Canada. These documents are classified and are among the most sensitive documents held by the government. They include submissions to and decisions by Cabinet and Cabinet committees, Cabinet agendas and draft legislation. Requests to obtain these documents are handled by the Subject Matter Expert (SME) for Access to Information.

8.11   Audit Principals *should* consult with the SME for Access to Information when requesting Cabinet documents.

8.12   Information requested is to be germane to the fulfilment of audit responsibilities.

8.13   Restrictions to access. Government officials recognize their obligation to co-operate with the Office and normally provide information on request. Staff encountering problems with access ***should*** not agree to any restrictions on the right to information without consulting the SME for Access to Information and the AAG/CESD. Denial of access to information constitutes a serious matter that is normally reported to the House of Commons.

8.14   Solicitor/client protected documents. The Office has entered into an agreement with the Department of Justice, as a result of the Professional Institute of the Public Service (PIPS) decision of the Federal Court (Trial Division). The Court decided that because a department had surrendered voluntarily to the Office documents that were solicitor/client protected, the privilege had been automatically waived.

8.15   At the beginning of an audit, the responsible AAG/CESD ***should*** send a letter to inform the audit entity that disclosure of documents to the Office is in compliance with the *Auditor General Act* and the *Financial Administration Act* and a solicitor/client document given to the Office during an audit does not constitute a waiver by the entity. This will allow the entity to preserve the solicitor/client privilege while meeting the information needs of the Office.

8.16   Information that deals with matters covered by solicitor/client privilege ***should*** not be divulged without the express consent of the audit entity to waive this privilege.

8.17   Disclosure of audit information. The Office is not subject to the *Access to Information Act*. This means that members of the public or third parties cannot obtain access to audit report drafts, working papers or other information held by the Office.

However, it is the policy of the Office that we will release certain non-audit and administrative information upon request. We will not release audit information. All requests for documents or information are to be referred to the SME for Access to Information. More details on this can be found in the "Policy on the Release of Information Under the Control of the Office of the Auditor General".

8.18   The most effective means to ensure that report drafts and audit information are not released is for the Office to have them in its direct possession. Therefore, the Office makes an effort to prevent the copying of and to secure the return of drafts or other potentially sensitive documents given to audit entities, for example during report clearance. Such documents are considered "controlled documents" and are to be handled in accordance with the Office security policy and the procedures below.

The only approved means for the transmission of controlled documents is by paper copy. Audit staff ***should***:

- review and follow Office security policy and the guidelines on disclosure of audit information;

- print or copy onto the Office's special red-bordered paper all Office-generated drafts or other potentially sensitive documents to be given to audit entities or other government institutions;

- number each copy when multiple copies are provided;

- limit the number of copies provided to the minimum possible;

- indicate at the time that they are given to the entity that they should be returned to the Office;

- keep a record of to whom such documents are given;

- request their return once the entity has no further need of them;

- keep a record of which copies are returned.

At times, an entity may **choose** to destroy the copies of the 'controlled document' that are within its possession instead of returning them to the Office. In such cases, the Principal will request that the entity provide the Office with a certificate that it has destroyed the copies of the document.

In the case of an entity not returning all of the documents as requested or not providing a certificate of destruction, Principals should inform their Assistant Auditor General and the Performance Audit Management Committee (PAMC) to keep them aware of the situation.

8.19   In spite of these precautions, Office documents occasionally become public both before and after publication of the associated Office report. Any Office staff who become aware that a document has or is about to become public are immediately to inform their Principal, the Principal, Communications and the Subject Matter Expert (SME), Access to Information. Further, this would include Principals informing their Assistant Auditor General, who communicates the situation to the Performance Audit Management Committee (PAMC). In the case of a document that was provided to an entity which is about to be made public, Principals should communicate with their contact in the entity in order to effectively manage the situation from both the Office and entity perspective. All questions concerning the document are to be referred to the Principal, Communications.

Further guidance on access to information can be obtained from the SME, Access to Information. Also, the Office's security policy, and the "Guidelines on disclosure of audit information" provide additional details on this.

Security of information

8.20   The Office meets the highest standards of professionalism and integrity and seeks to develop a relationship of respect and trust with those it audits. An important ingredient of those standards and principles is ensuring the security and confidentiality of both client and internal information.

8.21 The *Code of Values, Ethics and Professional Conduct* requires that all staff be familiar with the security aspects of their work, accept security as an important individual responsibility, and follow the principles set out in the Security Policy and Guidelines issued by the Office.

8.22 The Security Policy and Guidelines indicate that audit Principals are responsible for:

- acquiring an understanding of the security classification system in their audit entities;

- communicating the requirements to team members; and

- ensuring that the safeguards for the storage of and access to information are equal to or higher than those required by the audit entity.

8.23 The "Security Policy and Guidelines" provides more details.

Consultation with Legal Services

8.24 Legal Services is responsible for providing legal advice and counsel to the Office. This includes providing advice on:

- legal issues arising in the course of audits;

- the engagement of outside legal counsel; and

- in-house legal issues in areas such as personnel relations, labour relations and contracting.

8.25 Audit Principals ***should*** consult Legal Services on matters that present legal risks for the Office.

8.26 Matters that might require input from Legal Services include situations when:

- potential legal issues are identified by the audit team early in the audit process;

- legal advice forms the basis of an audit report to be made available outside the Office or where any advice destined to the Auditor General or the Executive Committee deals with legal matters;

- substantive discussions are planned with the Department of Justice or the legal services units of an entity;

- an audit report proposes changes or revisions to legislation, to ensure that it is appropriate and consistent with previous recommendations made by the Office;

- a Principal intends to refer in an audit report to a legal opinion obtained by the audit entity;

- requests for new work or services are considered; and

- third party references are made in reports.

8.27   Before making any reference in audit reports to a legal opinion, audit Principals ***should*** draw the matter to the attention of the Deputy Minister or the equivalent level in the audited entity and send a copy of the pertinent sections of the report to the client's legal services unit, and seek a waiver to the privilege.

Legislative Strategy: Guidelines for Seeking Legislative Amendments

Introduction

8.28   The government at times introduces legislation that has an impact on the role of, or that should include a role for, the Auditor General. This includes new legislation or amendments to current statutes that could result in a contraction, alteration or expansion to the mandate of the Auditor General. It is essential that our views be known in these circumstances, while preserving our independence from government policy-making,

As discussed under *Knowledge of Business*, Principals are expected to be conversant with the proposed legislative initiatives of the departments, Crown corporations, commissions and other agencies that they audit, as an essential component of knowledge of the business. This involves the following actions:

- A verbal or written request by the principal for information on legislative initiatives;

- Obtaining copies of draft legislation from the Internet (if available) or by direct request to the entity.

Draft legislation goes through many iterations, and the drafting period provides the most appropriate time for our views to be considered. The Principals ***should*** notify their AAG/CESD and Legal Services of: proposed legislation and seek direction on the nature and extent of representations to be made to departmental and entity officials; and, situations where departments refuse to provide drafts of proposed legislation pertinent to our work. Some draft legislation is more closely guarded, or falls into the definition of "cabinet confidences". Although not listed in the Order in Council governing our access to cabinet confidences, Legal Services can assist in discussions to obtain limited disclosure of those portions that deal with our Office. Even if our representations are unsuccessful, they will allow us to understand the government's policy position.

If officials are not favourable to our proposed changes, a decision could be made to have the Auditor General write or meet with the sponsoring Minister to express her views and emphasize the seriousness of the matter. This step also puts the Minister on notice of the Auditor General's position and what her public stance on the issue would be, if asked by the media or Parliamentarians.

Effecting changes to legislation after it has been tabled is much more difficult, and normally requires the approval of the Committee reviewing the Bill. Changes may be proposed by the government or by committee members, provided they are within the general scope of the legislation. Any attempt by teams to amend legislation after it is tabled ***should*** involve the Auditor General, Parliamentary Liaison, and Legal Services. Representations can be made to the Minister, in the

hope of having the government sponsor the suggested changes. Alternatively, Parliamentary Liaison can arrange an appearance before the committee reviewing the legislation. This is a last resort, since political motives could be ascribed to such an appearance, with a detrimental impact upon the credibility of the Office.

Co-ordinating work with the Regional Offices

8.29 Many entities have highly decentralized operations in order to provide services to the various regions of the country. The Office has established regional Offices to ensure a first-hand knowledge of the decentralized operations, a relationship of respect and trust with regional entity management and the most cost-effective use of resources.

8.30 Both the entity and regional Principals *should* ensure high levels of co-operation, co-ordination and liaison between regional and entity teams. This can include situations involving the regional office in entity planning, designating regional staff as liaison with an audit entity, promoting two-way communication on emerging audit issues, giving early notice of planned field trips, and utilizing regional staff, when dealing with matters located in the regions.

Wrongdoing and Fraud

8.31 The Office has a policy on Wrongdoing and Fraud. Its sets out general expectations for auditors of the Office. The principles and practices are in addition to any professional auditing and assurance standards to which the Office adheres.

There is guidance to all auditors in regards to wrongdoing and fraud while doing performance audits to assist them in their work.

Carrying out surveys

8.32 Surveys are increasingly becoming part of the auditors tool kit, particularly in the case of performance audits and studies. Surveys are used to ask individuals about factual situations, their views and perceptions and their actual behaviour. As well, survey methods can be used to enhance other audit techniques. The Office defines a survey as the administration of a standardized procedure, such as a questionnaire or a structured interview to obtain information on 25 or more individual cases, with the intention of making aggregated statements about the matters surveyed.

8.33 Audit Principals *should* consult with the SME, Surveys in planning survey-related activities. A "Guide on Conducting Surveys" is available to assist auditors.

Audit notes

8.34   Audit notes are an important part of the Auditor General's report. The audit notes chapter represents an alternative reporting mechanism for matters of significance that come to the attention of audit teams. Audit notes may be identified during any of the various types of audit work carried out on any Office product. Usually audit notes report on a single subject which must be within the mandate of the Office.

8.34.1   The auditor needs to consider the following guidance when proposing a potential audit note. An audit note needs to be:

- of a nature and significance worthy of being brought to Parliament's attention;

- of a timely nature for Parliament;

- based on a revenue, expenditure or authority matter;

- reportable (no policy or security concerns);

- auditable, i.e. appropriate audit criteria available, availability of adequately qualified internal and/or external resources;

- ideally a single, succinct subject issue or one time event (capable of being reported in no more than 6 pages);

- preferably systemic of a larger matter;

- designed to report either positive or negative findings; and

- cost effective to develop and report.

8.35   The audit notes chapter author is responsible for producing the chapter and for supporting the work of the Audit Notes Committee. The Audit Notes Committee's role is to:

- provide overall direction for the preparation and submission of proposed notes;

- ensure that a quality reviewer is appointed to each approved audit note;

- support the activities that contribute to the production of the chapter; and

- review and approve notes for inclusion in the chapter; and

- approve the Final Approval Form for each audit note.

8.36   Audit teams are to be alert to the possibility of potentially significant issues and devote appropriate effort to investigate such matters. When developing and reporting audit notes, audit teams ***should*** comply with the Performance Audit Policies, except those requiring recommendations on corrective measures.

8.37   Nevertheless, the Office encourages audit teams to make recommendations and obtain entity responses for audit notes, where appropriate. Where recommendations are not appropriate, the audit team needs to make every effort to obtain entity comments for inclusion in the audit note.

8.38   The Audit Notes Committee sends out annual guidelines requesting the submission of audit notes, establishing a timetable for submissions and providing general direction.

Restrictions in public reporting

8.39   The *Auditor General Act* requires the Auditor General to "call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons." Classified information may be critical for developing and supporting certain audit observations. In these circumstances, audit entities may express concern that such information, included in audit reports or other communications with the public, may be harmful to the national interest, and may request that it not be disclosed.

8.40   Audit Principals *should* assess with their AAGs whether requests to restrict reporting are valid, and seek the authority of the PAMC/CESD or Auditor General before agreeing to remove significant material from the report on the basis that it might be harmful to the national interest.

Reports to entity management

8.41   During the course of an audit, the audit team may identify situations, including weaknesses in controls, opportunities for improvement, deficiencies, or work well done that are not significant or of a nature to warrant reporting to Parliament or to the Boards of Directors of Crown corporations. However, the observations may be useful to entity management. Auditors may communicate these observations, either orally or in writing, to the appropriate level of entity management. Written audit reports or other written forms of communication that are left with the entity are subject to access to information in the entity. Reports to entity management *should* be approved by the entity principal; reviewed by the AAG/CESD; discussed with entity management; communicated clearly; and issued on a timely basis.

Third party references

8.42   Organizations or individuals that are to be cited or discussed in the reports of the Auditor General should be advised in writing on a timely basis of the nature and substance of the proposed reference and asked, where appropriate, to verify the accuracy and completeness of the statements made concerning them.

Third parties receive this notification where they are identified in the report, or are identifiable. Such notification enables the Office to fulfill its duty of care to third parties to ensure that the references are accurate and fair, besides promoting the objectivity of and underlying evidence for the reports. A third party is defined as any organization or person outside the department or agency that is the subject of the report. Any reference to third parties should respect their legal rights, particularly with respect to reputation and confidential information.

Consideration should be given to the merit of disclosing the names of third parties, in the context of promoting transparency and clarity to the extent permitted under the law. The media is necessary for the publication and dissemination of the issues raised in our reports and where the release of third party names is permissible under the law, and does not detract from audit objectives, disclosure should take place. The objective of such disclosure is the promotion of good communications, consistent with responsible reporting of our message.

There are three situations where the names of third parties may possibly be disclosed:

- in the body of the Report itself;
- before a Parliamentary committee; and
- in response to a question from the media.

The decision to disclose will be influenced to a great extent by:

- the type of third party reference (sample or case illustration); and
- the actual identity of the third party — government department, provincial agency, corporation or individual.

Different legal and transparency considerations will apply depending upon the nature of the third party information to be disclosed and the identity of the third party.

Given that management letters are subject to disclosure under the *Access to Information Act*, the same principles and procedures apply when third parties are mentioned in these letters.

Audit Principals *should*:

- ensure appropriate third party notifications are sent out on a timely basis, and
- be familiar with the detailed Office Guidelines on Third Party References;
- consult Legal Services for guidance where they have concerns with the legal implications of comments pertaining to third parties or difficulties obtaining clearance.

External communications

8.43   It is expected that all Office communications with Parliament and other stakeholders are clear, persuasive and effective. Other key expectations are explained in the following paragraphs.

8.44   Testimony at standing committee hearings. Once the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development are tabled in the House of Commons, they are referred to the Standing Committee on Public Accounts or the Standing Committee on the Environment and Sustainable Development. Committees consider the reports and examine certain matters contained in the reports at committee hearings. The committees frequently call members from the audited entity to testify. The Auditor General/CESD and members of her staff are also present and may be required to make an opening statement about the audit issues and to respond to questions from members. More frequently, these and other standing committees are requesting the Office to appear before the Committee to discuss and answer questions about audit reports.

8.45   The Office has been encouraging AAGs/Principals to spend more time with committee staff in order to obtain a better understanding of concerns and interests of the Committee and to explain the role of the Office and the value of using Office products. How the committees deal with an audit observation can have an important impact on the corrective actions taken by the audited entity.

8.46   Public communications. The Principal, Communications is responsible for co-ordinating public communications activities, including responding to media and public inquiries. Public communications includes any matter imparting knowledge that could only have been acquired while working for the Office of the Auditor General.

8.47   Spokespersons for the Office. On tabling day of her report and during the following week, the Auditor General is the only spokesperson for the Office unless otherwise approved. At other times, the Auditor General may designate other staff members to respond "on the record" to the media about audits under their direction. A list of these designates will be published before each tabling. Similarly, the Commissioner of Environment and Sustainable Development is the only spokesperson for the Office on tabling day of her report and during the following week. At other times, the CESD may designate other staff members to respond "on the record" to the media for material within her report. Designated staff members who are contacted by the media for background information on their chapter inform the Principal, Communications once they have responded.

8.48   Requests for interviews with media representatives ***should*** be channelled through the Principal, Communications.

8.49   Other public communications. Office staff members are in a unique position of having access to information and insight into government operations. As a result, they are often asked for their views on matters that are both work-related and non-work-related. Staff ***should***:

- inform their Principal or a higher level person to whom they report if they intend to deal with the media on a non-work-related topic and might be identified as an employee of the Office.

- obtain the approval of the AAG/CESD before accepting invitations to speak, teach, or lecture on work-related topics.

- obtain the authorization of AAG/CESD, in consultation with the Principal, Communications, to publish work-related articles, and include in the article a disclaimer that the views expressed do not necessarily represent the views of the Office.

8.50   Serving on professional practice committees. Members of the Office often serve on committees of professional or international organizations that are involved in standards or audit practice development initiatives. Although officially they may be serving in a personal capacity, there is an obligation to not only present their personal point of view but also the Office position.

8.51   Members of the Office serving on outside committees involved in standard or audit practice development *should*:

- inform themselves of the Office position on issues they deal with at external committees, by consulting with the appropriate members of the Office, including FRLs, PL-Performance Audit and SMEs;

- notify the Practice Development Committee (PDC) chair of any significant variances of positions taken by the committee with those of the Office; and

- inform the PDC about substantive issues arising from committees that relate to and have a significant impact on Office methodology and practice.

8.52   Preparation for tabling and standing committee hearings. Parliamentary Liaison is responsible for co-ordinating effective Office participation at committee hearings. This includes arranging and co-ordinating the preparation for scheduled hearings; briefing meetings, as required, with members of the Office staff, committee staff and committee members; and post-meeting reviews to identify opportunities for future improvements.

8.53   The "Policy for the Media Relations Program" and the "AG Briefing Notes" describe practice expectations in these areas.

8.54   DELETED

Project management

Performance audits, studies and audit notes should be managed as projects

8.54.1   Good project management is an integral part of our Performance Audit Quality Management Framework (QMF) and is one of the key elements that contribute to a quality product. For performance audit products, two concepts are considered necessary for effective project management. Firstly project

management provides the necessary structure, discipline and care to facilitate the process leading to a quality performance audit product. Secondly, effective project management requires strong leadership and active supervision to reach its full potential.

8.54.2   Project management means that a person or a group of persons are applying processes and knowledge, using tools and techniques, and ensuring that appropriate resources are available to effectively and efficiently complete a project. Our Performance Audit QMF indicates that project management should provide assurance that the audit team delivers the audit on time, in accordance with OAG policies, principles and values and that audit costs are justified.

8.54.3   An audit project is a unique undertaking that has a beginning, an end and, with specific resource allocation, is designed to attain specific goals. In our context, each of our three performance audit products, namely performance audits, studies and audit notes, is a project.

8.54.4   Our current *Roles and Responsibilities Framework* identifies the audit Principal as having the lead role for the management of a project. Such responsibilities can be delegated if the Principal wishes. Key responsibilities and critical success factors for effective project management include:

- Communicating effectively with the team members and internal and external stakeholders and keeping the organization informed of progress as required;

- Supervising, motivating and coaching team members and demonstrating leadership;

- Managing internal and external stakeholders expectations;

- Ongoing monitoring of project status, and

- Solving problems and completing the project successfully.

8.54.5   Sections 2.11 to 2.16 of this manual also details more responsibilities for the different team members.

8.54.6   In the performance audit context the key elements of project management are: initiation, planning, monitoring/control, and completion. These elements provide the project manager with the necessary structure to bring the project to a successful completion.

Initiation

8.54.7   Performance audit projects initiating phase starts once the One-Pass Planning (OPP) exercise has identified the areas that deserve attention. From the OPP, the team will propose audit projects. As part of the annual audit planning exercise, or exceptionally for an individual audit, the Executive Committee at this point approves or rejects the audit project. If approved, the operational planning

exercise determines the timing of the audit. For more on the planning process see chapter 2. Not all projects will originate in the OPP exercise. Some, such as audit notes or special requests, can come unexpectedly. Still, all audit projects need approval before proceeding.

Planning

8.54.8   Defining or refining project objectives and selecting the best of the alternative actions to attain those objectives are the essence of planning. A detailed work plan outlining costs and proposed schedule is essential. Important dates are mapped out for completing significant parts of the project.

8.54.9   Three critical phases of a performance audit require effective planning: (1) overview/survey, (2) examination, and (3) reporting. The level and detail of planning should be commensurate to the level of complexity, duration and risks of the audit to be undertaken.

8.54.10 Consequently, a team can chose to conduct an overview phase to gather information to better understand the entity it is about to audit. This would apply in the case of complex audits such as a Tier II for example, or where a completely new team is engaging in an audit of an entity with which they have no familiarity.

8.54.11 If, however the team has some knowledge of the entity needing to be updated, or if there is little need to gather overview information because the team is up to date, the team would proceed to planning and conducting the survey phase.

8.54.12 The planning for performance audit projects starts once they have been approved. At that point, the PX in consultation with the AAG/CESD assembles a team to conduct the planning phase of the audit [the overview (if any) and survey phases]. The Competence of the Audit Team policy in Chapter 3 of the Performance Audit Manual states that "the team must have collective knowledge of their subject matter and auditing proficiency necessary to fulfill the requirements of the audit". As noted in section 3.5, resources include not only OAG staff, but also specialists that might be hired to fill a knowledge gap. One of the key challenges for most audits is obtaining appropriate resources. The PX has the responsibility to inform the AAG/CEDD, if from his or her point of view, the appropriate resources are not available and the survey ought to be delayed.

8.54.13 Before the survey phase begins, the audit team prepares a survey plan[1] (or a chapter proposal if no overview was conducted). We expect a survey plan to include elements such as the matters of potential significance to explore, the timeline within which is it to be completed, and the resources needed to do it. This plan is discussed with and approved by the AAG/CESD and he/she is to approve significant changes to it. For more on the survey phase, see chapter 4.

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1. See para 4.17 for more on chapter proposals.

8.54.14 Once the team has completed the survey work, the AAG/CESD has approved the survey report, and the advisors have provided their advice to the team, the audit team develops an examination plan. This plan provides the basis for effective project management from the end of the survey phase all the way through the end of the reporting phase.

8.54.15 The Principal should engage all team members in developing the plan with a view to building common understanding and commitment. The examination plan details the scope of the audit, the audit objectives, the criteria, the approach and the methodology for each issue area, line of inquiry or program component, depending on the audit. The plan also identifies audit staff and contractors, and final estimated costs in terms of hours and contract and travel dollars. A summary of the examination plan *should* be sent to the Performance Audit Management Committee for approval and confirmation of resources and budget.

8.54.16 At this point, the project manager reviews the audit team profile needed for the examination phase. This may differ significantly from the survey phase team profile. Specialists may need to be hired to ensure that relevant knowledge and expertise is available. Through discussion with the AAG/CESD, the PX determines if he/she has the right people to fulfill the audit objectives and that these people are available. If for any reasons the PX or the AAG/CESD feels that the appropriate resources are not available to conduct the audit, he/she *should* document it. This can happen when the appropriate resources cannot be obtained or, if during the course of the audit, the appropriate resources leave the team. Should this occur, the issue *should* immediately be drawn to the attention of the Performance Audit Management Committee. The examination phase *should* only proceed once the Principal and AAG are assured that the team needed to meet the objectives of the audit is appropriate, available and ready to go.

8.54.17 The audit project management key milestones established for the audit form the basis for setting key project management deadlines throughout the audit. It is strongly advisable that the team build time for translation, approval and possible delays in their own schedule in order to meet the deadlines.

8.54.18 The reporting phase requires a planning effort similar to that of the other phases. As budgets are finalized at the time the examination plan is prepared, the planning of the reporting phase happens as part of the examination plan exercise. Activities such as the development of a general outline for the audit report, a strategy for clearance of facts as well as time for clearance, and the briefing of the AG are good illustrations of the need for planning. For more on the requirements related to reporting, see section 5 of the Manual as well as the audit project management key milestones. Guidance is available to assist audit teams in meeting reporting and communications requirements.

8.54.19 There are electronic tools available to assist in the various steps of the planning phase. A tool guide[2] with the tools currently on hand is available to assist program managers. In addition, in its quality assessment/help checklists, the Performance Audit QMF lays out all required elements of a quality performance audit. This can be a useful tool to plan an audit as well as to ensure quality throughout the life of the project.

8.54.20 In addition, when planning the audit, the expectation is that the team members will have taken into account all those standards that apply in the context of the audit. As well, special care needs to be taken when using specialist to ensure that he/she has all required skills and knowledge to be able to fulfill his/her responsibilities (guidance on use of specialists to be developed).

Monitoring/Control

8.54.21 As the team carries out the phases of the project, the project manager prepares periodic progress reports, formally or informally. The project manager also assesses team member performance and we would expect the project manager to do this assessment formally at the end of the project.

8.54.22 Control involves the assurance that project objectives are being met by regularly monitoring and gauging progress. This helps to identify variances from the plan so that the project manager can take corrective action when necessary. Furthermore, reviewing key milestones and status reports (budgets versus actual) are important to ensure that the project is working according to plan, is on time, within budget and heading in the right direction. Monitoring provides the project manager with the opportunity to ensure that the limited resources are used properly and if needed, to reallocate resources. Any significant changes to the examination plan should be approved by the AAG/CESD and the Performance Audit Management Committee.

8.54.23 There are various electronic tools available to a project manager in the Office to monitor costs, slippage, and other budget items. (October 2004).

8.54.24 As an essential part of effective project monitoring, the project manager must ensure proper supervision of all its team members, including specialists hired to assist in the audit. We expect project managers to provide guidance to the team, monitor their progress as well as make the appropriate correction to the course of the audit when necessary. Clear direction is fundamental to ensuring that each team member knows what the expectations are in terms of his/her work. More detailed expectations are listed in paragraph 3.12 of the manual section on Audit Conduct.

2.To be developed.

Completion

8.54.25 The completion of the project and the settling of any remaining items occur when the project manager brings his/her project to an orderly end. For our performance audit practice, the reporting phase, tabling and its related activities allow for the completion of the audit project. Therefore, completion includes such things as substantiation, report preparation and approval, communications strategy, briefing of the AG, tabling preparation and tabling.

8.54.26 Once the audit is completed and the report tabled, the project manager should prepare an accountability report within one month of tabling. The accountability report assesses the success of the project against the examination plan. It answers questions such as:

- Was the audit completed on budget and if not were the changes justified and approved?
- Were the key milestones met?

8.54.27 In summary, the accountability report provides an early assessment of the efficiency of the audit. It can also provide a brief self-assessment of how well the Principal managed the project. The accountability report *should* be presented to the AAG/CESD for review. A final copy *should* be sent to the Performance Audit Management Committee. Another copy is to be forwarded to the Comptroller's group. In addition, the Strategic Planning and Professional Practices group (SPPP) collects lessons learned through discussion with chapter authors once the report is tabled.

8.54.28 In conclusion, these project management processes are continuous and overlapping with varying degrees of intensity during each phase of the audit project. By going through this process at each phase, the project team can constantly ensure that the objectives of the project are being met and that the project is still relevant. Not all elements of this process need to be documented. However, project managers are expected to document key audit decisions.

People management at the team level

8.55   In the Strategic Plan, the Office sets out its vision and its commitment to the highest standards of professionalism and integrity. The Office wants to create a work environment where employees can take pride in the Office and its products and feel responsible for its success.

8.56   The Office values its employees and recognizes that they are the most important element in meeting its goals. The aim is to have a respectful workplace that develops highly skilled, motivated, and productive individuals, while maintaining the flexibility and diversity required to achieve our Plan in a cost-

effective manner. Audit teams are where the majority of the Office resources are used and are the front lines in terms of operations. It is important that teams operate in an environment that encourages personal growth and fulfilment of aspirations.

8.57   DELETED

8.58   To ensure that we live up to our commitment to our people, the Office has established a number of expectations to govern the way we manage people at the team level. Persons supervising others are expected to:

- be role models in action and in words and consistently practice sound leadership;

- exhibit and encourage openness, patience, trust and teamwork;

- clearly define the work assigned, the purpose of the work, and employees' functions, responsibilities and authority, and explain how the assigned work fits into and contributes to the accomplishment of the overall objectives of the audit;

- coach staff to achieve higher performance. Coaching involves ensuring that expectations are clearly set out, transferring skills to staff, working with people having problems, providing skill and development opportunities, following up and providing feedback, recognizing good performance, and giving encouragement;

- maintain both formal and informal channels of communication to keep staff informed about the Office vision, focus areas, Performance Audit Quality Management Framework, Office and team quality improvement initiatives; new or innovative audit practices; and other issues affecting the individual, team, or Office as a whole;

- ensure that any barriers between audit teams and functions are reduced and promote teamwork and open communications up, down and across the organization;

- involve team members, whenever practical, in solving problems and in initiatives to improve quality and encourage them to suggest innovative ideas; and

- identify individual and team training and development needs and respond to these needs through training, work assignments and counselling on performance progress.

8.59   The Human Resources group can help with a complete description of people management expectations.

Continuous improvement

8.60   Quality is a basic operating principle of the Office. Quality involves every aspect of the Office's operations including its leadership, the focus on client needs, management of our people, audit practices and other processes, and our system for measuring performance. Quality is not a static condition. It requires a commitment from every staff member to continuous improvement.

8.61   A critical feature of the Performance Audit Quality Management Framework is the process for measuring, in a comprehensive way, how well we're doing in achieving our goals. This is achieved through a variety of review mechanisms.

Review policy

8.62   It is the policy of the Office that a practice review and internal audit program be in place to provide, to the Auditor General, timely information, advice and assurance about whether OAG management systems, both for audit and support activities, are suitably designed and effectively operated to support the achievement of OAG policies, principles, values, vision and overall Strategic Plan. The OAG Policy on Practice Review and Internal Audit specifies the operating principles and responsibilities for review.

The review continuum

8.63   Review is carried out in several ways, but all based on the audit policies, quality control criteria, and other practice expectations in place within the Office. All levels of review are designed to provide assurance that practices meet accepted standards, and to help the Office continuously improve the quality of its products.

8.64   **Team self-assessment.** Audit teams can review audit practices through post-audit discussions and using available Self-Assessment Checklists. Checklists act as reminders to support the team in producing a high-quality audit. They can provide a blueprint for corrective actions during the course of the audit, provide a barometer to measure the quality of the audit, expedite future internal practice and external reviews, and identify opportunities to improve team and Office practices.

8.65   **Practice reviews.** The Strategic Planning and Professional Practices group carries out practice reviews of a sampling of audits in order to obtain a perspective on the quality of audit and management practices. It also carries out reviews of areas of higher risks across all audits. The scope of the practice reviews encompasses all aspects of the audit process. Practice reviews are designed to contribute to continuous improvement by creating the opportunity for audit teams and the Office to learn from experience.

8.66   Internal audit. Internal audits of administrative functions are carried out using the same auditing standards that the Office uses when conducting audits in the government. Internal Audit advises management of significant risk areas within the Office and the extent to which they are being well managed. It provides information, analysis, assessments and recommendations to assist management in the discharge of its responsibilities.

8.67   External reviews. The Office periodically appoints an external organization to carry out a review of its practices in order to confirm internal assessments and to obtain a truly independent assessment.

Other Inputs to Continuous Improvement

We also undertake a variety of approaches to help us to identify opportunities to improve performance audit practices, including the elements described below.

8.68   Client and stakeholder surveys. The Office periodically obtains feedback on its performance through consultation with its clients and stakeholders. Previous surveys have asked Crown Corporation Audit Committee Chairs and CFOs and MPs and Senators for their view's on the Office's work.

8.69   Benchmarking and collaboration. The Office maintains relationships with provincial audit offices and audit offices in other countries. Practices are shared through exchange of information and conferences and symposia and well as through relationships with representatives from these other audit offices. The Office also keeps informed of new developments in the field of auditing through its participation in organizations such as the Canadian Council of Legislative Auditors (CCOLA), the CCAF-FCVI Inc., the International Organization of Supreme Audit Organizations (INTOSAI) and the Canadian Institute of Chartered Accountants (CICA).

9 *The Performance Audit Quality Management Framework*

Context

9.1   The Office has always maintained a very high level of excellence and credibility in its work. Parliamentarians, stakeholders, taxpayers, and the media have, on many occasions, complemented the Office on the quality of its work.

9.2   In the past, the Office's quality control system has relied heavily on dialogue and co-operation, in addition to the formal control instruments. This quality control system has evolved continuously, in response to changing perceptions of risks, reduced budgets, and increasing diversity of our audit base. We now have a broader quality management framework designed for performance audits/studies.

9.3   DELETED

Principles of quality management

9.4   Quality management systems are based on a number of principles. The key ones are:

- quality is built into the production process rather than relying on post-production audits or checklists;
- responsibilities for each player in the control process are clearly defined and properly communicated;
- controls respond to key risks in a timely manner. Too many controls results in no control;
- an efficient control process;
- controls are built in a cascade, with an appropriate mix of external, corporate, group, team and individual controls;
- controls are results-focussed; and
- practitioners participate in the continuous evolution of the control framework.

9.5 The Strategic Plan encompasses the Office's quality management framework. The plan is continuously evolving and is regularly updated to reflect the current environment within which the Office operates. The Strategic Plan is built upon a number of values and behaviours that call for serving the public interest, independence and objectivity, commitment to excellence, respectful workplace, trust and integrity, and leading by example.

9.6 In developing the Strategic Plan, the Office recognized that no set of rules or controls can cover every circumstance that arises in the course of carrying out an audit, and emphasis is placed on the exercise of sound professional judgment. A key challenge for the Performance Audit Quality Management Framework has been to provide the right balance between required control steps and the amount of professional judgment that practitioners can exercise. On the one hand, we need flexibility and discretion for practitioners on the other hand we also want to manage key risks through compliance and documentation of key control steps.

9.7 **Figure 5** shows the key elements — leadership and planning, audit management, client focus, people management and continuous improvement — of the Performance Audit Quality Management Framework.

9.8 **Figure 6** depicts the key steps in the Office's present performance audit process control framework. (October 2004)

9.9 The key requirements of the Performance Audit Quality Management Framework are presented in the Performance Audit Quality Self-Assessment Checklist. This checklist provides performance auditors with the ability to verify if the quality elements have been met.

Ongoing improvement of the quality management system

9.10 Continuous improvement activities form part of every quality management system. A continuous improvement process will ensure that our management of quality continues to evolve to reflect the current environment within which the Office operates.

9.11 A continuous improvement process typically contains six activities that operate in an interactive manner: various forms of review to assess product or process quality; identification and documentation of lessons learned; development of an inventory of improvement initiatives; practice improvement studies to propose reinforcements to approaches; formal documentation of standards and expected practices; and development activities to build staff awareness of new standards and expectations. These activities apply equally to all elements of the Office's quality management system.

9.12   It is important that our performance audit work results in reports of high quality and serve the Parliament and well-being of Canadians. Our continuous improvement activities ensure that we continue to build on our already strong focus on quality in our performance audit products.

Key Elements of the Office's Performance Audit
Quality Management Framework

Figure 5

Leadership and Planning

| Strategic Direction | Selecting the Audit | Operational Planning | Methodology |

Audit Management

| Conduct of the Audit | Project Management | Planned Audit | Accessible, Sufficient & Appropriate Evidence | Reporting the Audit | Consultation | Independence, Objectivity & Integrity | Security, Access & File Retention |

Client Focus

| Communicating Audit Messages | Feedback from Clients and Stakeholders | Effective Reporting |

People

| Resourcing | Leadership & Supervision | Respectful Workplace | Performance Management | Professional Development |

Continuous Improvement

| Practice Review | Lessons Learned |

Quality Management Element	This element should provide reasonable assurance that:	Key Instruments Employed
Leadership and Planning		
1. Strategic Direction	There is a shared view of the future direction, strategy and priorities of the Office. The strategic direction focuses on the changes needed in the Office's business and organization to fulfill its mandate to Parliament, and to stay relevant in the years to come.	• *Auditor General Act* • *Financial Administration Act* • Strategic Planning Exercise: vision; values and strategic challenge including the Auditor General's focus areas • Office's chain of results (OAG Report on Plans and Priorities performance reporting) • Panel of Senior Advisors
2. Selecting the Audit	Audits are within OAG authority and address high risk areas and/or are seen as important and relevant areas for review by Parliament, the public and departments.	• *Auditor General Act* • *Financial Administration Act* • Other legislation • Environmental scan • Parliamentary requests • Long-term entity plans (One-pass planning system) • Legal Services advice and support • Client survey results • Panel of Senior Advisors
3. Operational Planning	Group budgets provide sufficient and appropriate resources and the time necessary to conduct and complete the selected audits.	• Operational Planning Exercise
4. Methodology	Appropriate methodology, tools and techniques are in place, useful and applied consistently.	• Methodology review and update mechanisms for Performance Audit methodology • Practice Review reports • Lessons learned
Audit Management		
5. Conduct of the Audit	Audits are conducted with due regard for efficiency and economy in terms of time spent and resources consumed and in accordance with the legislative mandate, policies and practices of the Office.	• Performance Audit Manual and guidance • CICA Assurance Handbook

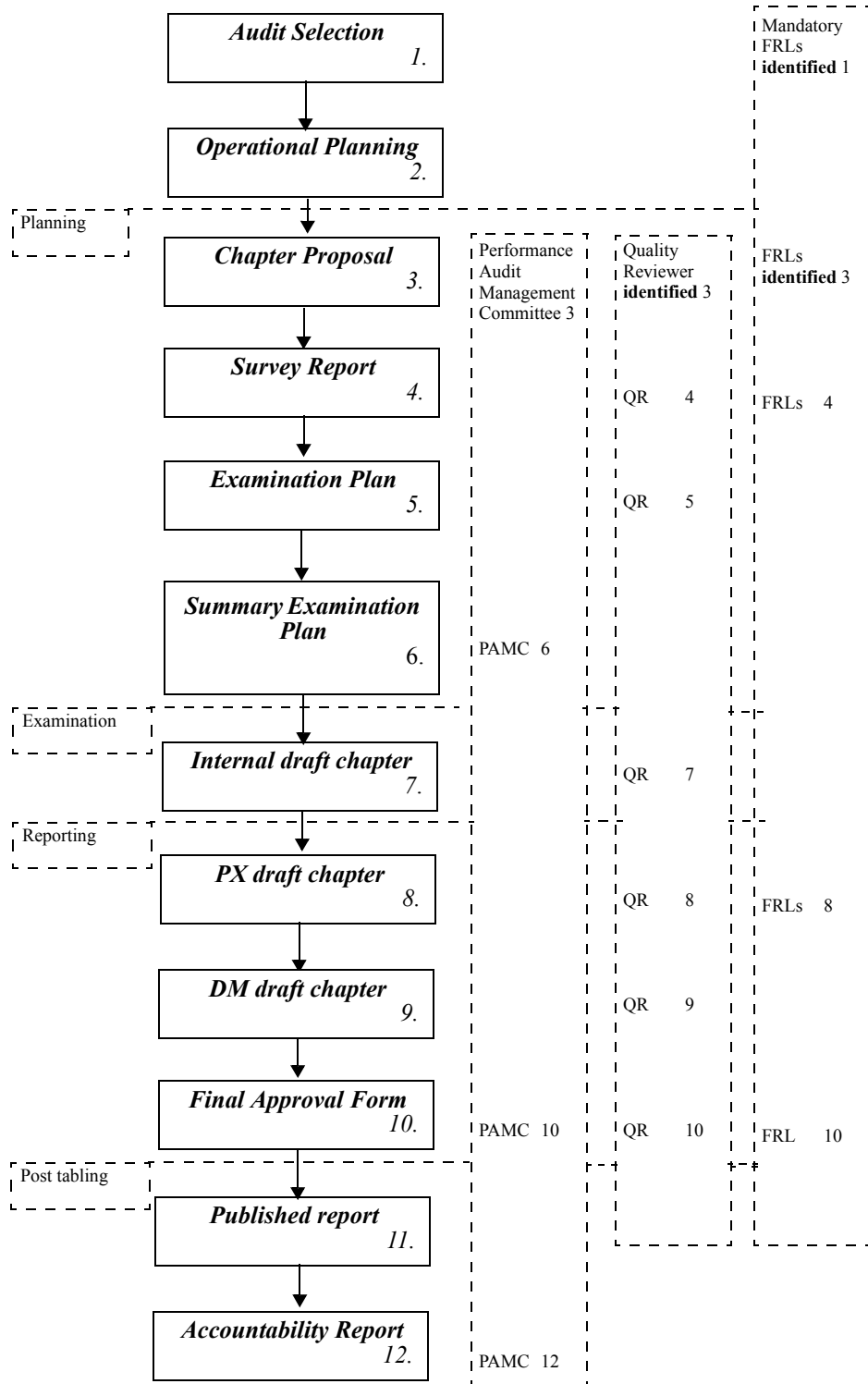| 6. Project Management	The audit team delivers the audit on time, in accordance with OAG principles and audit costs are justified.	• OAG Competency Model • Human Resources information (indicators) • Approved budget and human resources • Key production milestones • Audit Control File • Progress reports • Electronic tools
7. Planned Audit	The work is adequately planned and issues are selected on the basis of risk, their relevance to the Office's mandate, significance, and auditability. Criteria that are suitable for evaluating the subject matters are identified and developed.	• Performance Audit Manual and Guidance • Survey Report • Examination Plan • First advisory committee meeting
8. Accessible, Sufficient and Appropriate Evidence	Sufficient appropriate evidence is obtained to provide a reasonable basis to support the conclusion expressed in the report. Matters that in the auditor's professional judgment are important to provide evidence to support the conclusion expressed in the report are documented.	• Performance Audit Manual and guidance • Confirmation of findings resulting from field work with the entity audited • Review by AAG/CESD, Quality Reviewer, and Advisory Committee of significance and ordering of issues, report message and conclusions and their rationale.
9. Reporting the Audit	The report addresses high risk areas, is relevant, coherent, clear, credible, accessible and in plain language for the readers. There is effective oversight of every chapter and report before release that ensures consistency with mandate, past corporate decisions, Office principles and coherence of messages.	• Performance Audit Manual and guidance • Quality Reviewer review • Clearance of report with audited organization and third parties where applicable • Challenge by Advisory Committee — PX draft • Final review by AG
10. Consultation	Consultation is sought from authoritative sources and specialists with appropriate competence, judgement and authority, to ensure due care when dealing with complex, unusual or unfamiliar issues.	• Audit advisory committee • Quality Reviewer • Performance Audit Manual and guidance • Functional responsibility leaders (FRLs) including Legal Services, Subject Matter Experts (SMEs) and Product Leaders (PLs)

11. Independence, Objectivity and Integrity	All persons performing the audit, including specialists, maintain an objective state of mind in order to remain unbiased in carrying out their responsibilities and in forming their conclusions. Practitioners are free, and appear to be free, from relationships that may bias their professional judgment.	• Code of Values, Ethics and Professional Conduct of the Office • Performance Audit Manual and guidance
12. Security, Access and File Retention	Confidentiality and appropriate access to sensitive information is maintained. Files are adequately retained and protected to facilitate availability and confidentiality as it relates to Office records policies.	• National Archives of Canada Act and Regulations • Government Security Policy (OAG security policies) • OAG records management policies
Client Focus		
13. Communicating Audit Messages	Post-tabling audit messages are communicated clearly and consistently.	• Guidance from Parliamentary Liaison about pre-tabling briefings and briefing requirements. • Guidance from Communications group on preparation of Press Releases and responding to media enquiries. • Guidance in preparing communications to Parliament.
14. Feedback from Clients and Stakeholders	Clients and stakeholders perceive information and audit process as useful.	• Reporting of take-up of recommendations in OAG Performance Report/Tracking system • Survey instruments • Analysis of external communications (media, public enquiries, references in debates) • Analysis of the scrutiny of the Report by PAC and/or other standing committees of the House of Commons
15. Effective Reporting	Intended users understand the report and properly interpret its contents.	

People Management		
16. Resourcing	Audit teams have collective knowledge of their subject matter and the auditing proficiency necessary to fulfill the requirements of the audit. Persons carrying out the work have adequate technical training and proficiency.	• Performance Audit Manual and guidance • Human Resources policies and guidance • OAG Competency Model • Professional Development curriculum
17. Leadership and Supervision	Persons working on the audit receive an appropriate level of leadership and direction. Adequate supervision of all persons, including specialists, is provided so as to ensure that audits are properly carried out. All team members are encouraged to perform to their potential and receive appropriate recognition.	• Performance Audit Manual and guidance • Assignment and annual performance reviews • AP and ASG collective agreements
18. Respectful Workplace	A working environment is provided in which everyone is treated with dignity and respect and encouraged to realize their full potential. Open and honest communication to create a climate of trust and teamwork is encouraged. Our talent and diversity is valued and learning and quality-of-life endeavours are supported.	• Human Resources policies and guidance including Discrimination and Harassment Policy and Health and Safety Policy • Official Languages Act, Employment Equity Act and Canada Labour Code • Values and Behaviours document • AP and ASG collective agreements • Employment Equity Plan and Report
19. Performance Management	Employees receive timely and constructive feedback on their performance and have access to counselling and guidance.	• Performance Management System including assignment and annual objectives and appraisals • Counseling and guidance processes • Promotion processes
20. Professional Development	An evolving learning curriculum and development opportunities are maintained to prepare staff to audit and facilitate their personal growth in knowledge and experience throughout their tenure at the OAG.	• Centralized Professional Development function • Professional development through such means as on-the-job training, annual staff updates, formal courses, self-directed studies, and internal and external assignments • Library resources • Self-Learning Centre

Continuous Improvement		
21. Practice Review	Our performance audit practice meets the Quality Management Framework. Our Quality Management Framework for performance audits is appropriate and effective.	• Practice review policy and program • Regular internal practice reviews • Internal audit • Panel of Senior Advisors • External practice review by experts
22. Lessons Learned	Audit experience is assessed and opportunities for improvement are identified and implemented.	• Lessons Learned Philosophy • Survey instruments

Figure 6

**Overview of the Performance Audit
Process Control Framework**

Process step	PAMC	Quality Reviewer	Mandatory FRLs
Audit Selection 1.			Mandatory FRLs **identified** 1
Operational Planning 2.			
Planning			
Chapter Proposal 3.	Performance Audit Management Committee 3	Quality Reviewer **identified** 3	FRLs **identified** 3
Survey Report 4.		QR 4	FRLs 4
Examination Plan 5.		QR 5	
Summary Examination Plan 6.	PAMC 6		
Examination			
Internal draft chapter 7.		QR 7	
Reporting			
PX draft chapter 8.		QR 8	FRLs 8
DM draft chapter 9.		QR 9	
Final Approval Form 10.	PAMC 10	QR 10	FRL 10
Post tabling			
Published report 11.			
Accountability Report 12.	PAMC 12		

Appendix 1: Performance Audit Policies

These policies were developed for performance audits carried out by the Office. They represent the requirements that must be met for a product to be considered a performance audit.

General Policies

- The Code of Values, Ethics and Professional Conduct and other Office policies should be adhered to in all Office activities.

- All performance audits should be completed in accordance with the Office's performance auditing policies.

- Performance audits, studies and audit notes should be managed as projects.

Audit Conduct Policies

The essential policies of our approach to performance auditing are the following:

- The audit team should exercise due care.

- The audit team should be made up of individuals who have an objective state of mind and are independent.

- The audit team should have collective knowledge of their subject matter and auditing proficiency necessary to fulfil the requirements of the audit.

- The audit team should ensure proper supervision of all its members.

- The audit team should seek entity management's views about critical elements of the audit.

- The audit team should obtain sufficient and appropriate consultation and advice throughout the audit.

- The audit team should maintain appropriate documentation and files.

- The audit team should deliver clear, persuasive and effective communications to Parliament and other stakeholders.

Audit Examination Policies

- Audits should have clear objectives that can be concluded against.

- Audits should have a clear scope that focusses the extent, timing and nature of the audit.

- Audits should select issues on the basis of their relevance to the Office's mandate, significance and auditability.

- Audits should have suitable criteria that focus the audit and provide a basis for developing observations and conclusions.

- Audits should have sufficient appropriate evidence to support the contents of the audit report.

- Audits should involve objective evaluation of the evidence against the criteria to develop observations and conclusions.

- Audits should include recommendations to point to the direction in which positive changes can be made for the most serious deficiencies reported. Recommendations are not required for each audit finding. (May not apply in all audit notes).

- Audits should have necessary and sufficient observations to support conclusions made against each audit objective.

- Audits should result in a report that meets the Office's Reporting Policies.

Audit Reporting Policies

Each audit should result in a report that clearly communicates to the reader:

- the objectives, nature, time period covered by the audit, and scope of the audit, including any limitations;

- the professional standards and policies used;

- the level of assurance provided by the report;

- a description of the program or activity that was audited, including management's responsibilities;

- the criteria used, their source, and any disagreements with management on their suitability; (May 2006)

- the observations made;

- the recommendations made to point to the direction in which positive changes can be made (may not apply to all audit notes);

- management comments (if provided) including planned action in response to the audit and any differences of opinion; and

- the conclusions reached against each audit objective including any qualifications, where applicable.

Audit Follow-up Policies

Issues or recommendations that were presented in previous reports and that are of continuing interest to Parliament and/or that pose a significant risk should be re-audited.

Progress in implementing all recommendations from previous reports should be assessed for a maximum period of five years, or until the issue is resolved, or obsolete.

Appendix 2: Definition and Interpretation of Key Terms used in the Auditor General Act

Significance

The introductory clause of Section 7(2) means that the Auditor General reports only matters of considerable amount, effect or importance. The nature of the items reported are to be current and of interest and priority for review by parliamentarians.

Including cases

The requirement to report cases means that the Office provides assurance or reports positive findings, as appropriate.

Due regard

The audited entity is obligated to be prudent in its use of resources, that is, to consider all reasonable and appropriate actions in its decision making.

Economy

Economy means getting the right amount of resources, of the right quality, delivered at the right time and place, at the lowest cost.

Efficiency

Efficiency means the minimum resource inputs to achieve a given quantity and quality of output.

Effectiveness

Effectiveness refers to the extent to which the outcomes of an activity match the objective or the intended effects of that activity.

Appendix 3: Updates to the Performance Audit Manual

Update: No. 7 February 2007		
Para #	**Effective date**	**Highlight**
8.31	February 2007	The paragraph has been modified to reflect the new policy and guidance on Wrongdoing and Fraud.

Update: No. 6 August 2006		
Para #	**Effective date**	**Highlight**
4.44 to 4.52	May 2006	The paragraphs were modified to reinforce the distinction between generally accepted criteria and not generally accepted criteria.

Update: No. 5 April 2006		
Para #	**Effective date**	**Highlight**
4.50	April 2006	Paragraph has been modified to inform auditors of the revised template for preparing summary plans.

Update: No. 4 October 2005		
Para #	**Effective date**	**Highlight**
5.19 and 5.20	October 2005	Paragraphs have been modified to reflect the new guidance for preparing Chapter Main Points.
Chapter 6 Audit Follow-up Policies	May 2005	Chapter 6 on Audit Follow-up has been replaced. New policies have been adopted and have been included in Appendix 1.
10. (Introduction)	May 2005	The paragraph has been modified to reflect the content of chapter 6.

Update: No. 4 October 2005		
Para #	**Effective date**	**Highlight**
2.8	May 2005	The paragraph has been modified to redefine the follow-up taking into account the new policies.
Appendix 1: Performance Audit Policies—Audit Follow-up Policies	May 2005	Audit Follow-up Policies updated to reflect Chapter 6

Update: No. 3 July 2005		
Para #	**Effective date**	**Highlight**
2.16	May 2005	The paragraph was modified to ensure more independence in the selection of Quality Reviewers and to add new criteria for their selection.
4.86	May 2005	The paragraph was modified to provide an interpretation of the new policy.
4.87	May 2005	The criteria for good recommendations have been grouped in three categories: recommendations that can be followed up; clear recommendations; and action-oriented recommendations.
4.88	May 2005	The paragraphs were replaced by new guidance on seeking management's views on recommendations and to provide tools to facilitate the consultation.
4.90	May 2005	A paragraph has been added to clarify the responsibilities of the auditor and of the entity in relation to recommendations.
Recommendations Policy Chapter 5 Performance Audit Reporting Policies Appendix 1: Performance Audit Policies – Audit Examination Policies and Audit Reporting Policies	May 2005	The recommendations policy has been modified following the results of the external review of the Performance Audit practice. The new policy requires that recommendations be made only for the most serious deficiencies reported.

Update: No. 2 February 2005		
Para #	**Effective date**	**Highlight**
2.17	October 2004	Paragraph has been modified to reflect the current terms of reference of the PAMC.
3.23	October 2004	A sentence has been added to inform the reader to obtain appropriate sign-off from all mandatory FRLs consulted during the performance audit.
4.22.1	October 2004	A bullet was added to be consistent with the French version of the Performance Audit Manual. Clarification was also added to emphasise the importance of the guidance and the use of secondary evidence.
4.22.2	October 2004	A sentence has been added to inform the reader to consult all mandatory FRLs/QRs and other FRLs/SMEs to ensure that they receive the necessary information during the performance audit.
4.79	October 2004	A paragraph has been added to reflect the new guidance on the use of secondary evidence from audit entities and third parties. This modification was done in light of the practice advisory # 7: "Using Secondary Evidence Information in Performance Audits".
4.79.1	October 2004	Paragraphs have been added to reflect the new guidance on Sign-Off Minutes of Audit Meetings. This modification was done in light of the practice advisory # 8: "Sign-Off Minutes of Audit Meetings and Interviews – Consultation and Interim Guidance".
4.8	October 2004	Deleted.
5.17	October 2004	A bullet has been added to obtain approval of Legal Services for report clearance.
5.18	October 2004	A bullet has been added to reflect the need to obtain the AG's comments.
7.5, 7.7, 7.8, 7.9, 7.11 and Annex 1	October 2004	Paragraphs have been modified to clarify the differences between performance audits and studies. These modifications were due in light of the practice advisory # 9: "Study Policies – Consultation and Interim Guidance". Annex 1 – Study Follow-up Policy paragraph deleted.
7.12	October 2004	Paragraph deleted.
8.54.23	October 2004	The tool guide reference has been removed following a decision of PDC.
9.8	October 2004	Figure 6 has been updated to depict the performance audit process control framework within the Office.

Update: No. 1 December 2004		
Para #	**Effective date**	**Highlight**
Throughout Manual	June 2004	The term Value for Money Audits and VFM have been replaced with Performance Audits.