Office of the Auditor General of Canada

Report on a Review of the Special Examination Practice

Practice Reviews Conducted in 2008–09

May 2009

Practice Review and Internal Audit

14910-e

FA1-6/3-2009E-PDF
978-1-100-14377-4

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Introduction

1. The Office of the Auditor General (the Office) conducts independent audits that provide objective information, advice, and assurance to Parliament, territorial legislatures, and Canadians. The Office has several product lines including performance audits, financial audits, and special examinations. Special examinations assess the management systems and practices of a Crown corporation and provide an opinion on whether there is reasonable assurance that there are no significant deficiencies.

2. The Practice Review and Internal Audit Team conducted practice reviews of selected special examinations reported in 2007 and 2008. This work was done in accordance with the monitoring section of the General Standards of Quality control for Firms Performing Assurance Engagements of The Canadian Institute of Chartered Accountants (CICA). It was also done in accordance with the 2008–09 Internal Audit and Practice Review Plan, which was recommended by the Audit Committee and approved by the Auditor General. The Plan is based on systematic monitoring of the work of all audit principals in the Office on a cyclical basis.

3. To meet the standards of CICA, the Office establishes policies and procedures for its work. These include an audit manual, various other audit guidance tools, and a Quality Management System for each product line. The Quality Management System for special examinations ensures that quality is built into the examination process. It guides examiners through a set of required steps to ensure that special examinations are conducted according to professional standards and Office policies.

4. This report provides a summary of the observations related to the review of the special examination product line and consolidates the results of practice reviews of the special examinations reviewed.

Background

5. The *Financial Administration Act* (FAA) requires each parent Crown corporation (with certain exceptions) to have a special examination of its organization. Recent amendments to the Act have changed the time period between examinations from 5 years to a maximum of 10 years. These revisions also include a requirement for Crown corporations to submit the special examination report to the responsible minister and the Treasury Board and to make the report public.

6. The FAA requires the examiner to provide an independent opinion on whether an organization's financial and management control and information systems and management practices provide reasonable assurance that

- the assets of the organization are safeguarded and controlled;
- the financial, human, and physical resources of the organization are managed economically and efficiently; and
- the operations of the organization are carried out effectively.

7. The Office has a lengthy history of experience with special examinations that dates back to the mid-1980s. Overall, the Office is expected to complete more than 45 special examinations in a 10-year period. The Office finalized 8 in the 2008–09 fiscal year.

Overview

Objective

8. The objective of a practice review is to provide the Auditor General with assurance that the Office's Special Examination Quality Management System (QMS) is appropriately designed and effectively implemented and meets legislative requirements, professional standards, and Office policies and practices for special examinations.

Scope and methodology

9. We conducted practice reviews of three special examinations over the reporting period. We reviewed one special examination reported in 2007 and two special examinations reported in 2008.

10. We stayed abreast of the special examination practice by reviewing the Special Examinations Manual, the Quality Management System, practice advisories, Office policies, CICA assurance standards, and other documentation relevant to special examinations.

11. Our reviews included an examination of documentation and a review of electronic (TeamMate) and paper audit files. We examined files related to the planning, examination, and reporting of the audits. Our review focused on the most significant approvals, decisions, and reporting matters of the special examination. We also reviewed the substantiation (evidence) file, which contains examination evidence most pertinent to audit report content and ensures that observations, conclusions, and recommendations of the report flow logically and

are well supported. We also interviewed audit team members, quality reviewers, and other internal specialists, as appropriate.

Quality Management System elements and key process controls reviewed

12. We focused our work on selected elements of the Special Examination Quality Management System (QMS) (see Appendix A). Our practice reviews covered the following QMS elements that we considered to be higher risk:

- Conduct of the examination
  - Planning
  - Examination
  - Reporting
  - Finalization of audit files
- Consultation
- Resourcing
- Independence
- Leadership and supervision

13. We also looked at how the quality reviewers carried out their responsibilities for quality assurance. Quality reviewers are management-level employees of the Office who are appointed to provide an independent and objective evaluation, before the auditor's report is issued, of the significant judgments the audit team made and the conclusions reached in formulating its audit opinion. The quality reviewer is an important element of the Office's control system and is involved in individual audits from the initial planning decisions to the closing of the audit file. See Appendix B for a description of the key process controls of the Quality Management System.

Rating system

14. We applied the following ratings to each of the Quality Management System (QMS) elements of the individual special examinations under review:

- **Compliance.** The expectation for the QMS element or the key process control along with CICA standards for assurance engagement was met; minor improvements might be possible.
- **Needs improvement.** Improvements are necessary in some area(s) to fully comply with Office policies and CICA standards for assurance engagements.

- **Non-compliance.** Major deficiencies exist; there is non-compliance with CICA standards for assurance engagements and/or the Office's policies.

15. After completion of the practice reviews, we also provided an overall conclusion on whether the audit report was appropriate in the circumstances. Should multiple elements of the Quality Management System be non-compliant, the audit opinion is at risk.

Reporting standards

16. This report follows the monitoring section of the CICA Handbook—General Standards of Quality Control for Firms Performing Assurance Engagements and Office policies. The standards require that information on monitoring procedures performed, conclusions drawn from the monitoring procedures, description of deficiencies, and actions taken to resolve these deficiencies be communicated.

Results of the Reviews

Summary of compliance with Quality Management System and process control elements

17. Overall, we found that the audit reports had sufficient evidence and were appropriate for two of the three files reviewed, but the files needed improvements to fully comply with the Quality Management System and CICA standards for assurance engagements. The third file did not comply with the QMS and professional standards for assurance engagements and we concluded that there was not sufficient and appropriate evidence in the file to support some observations and conclusions in the special examination report. In the latter case, the audit team has been subsequently required to extend its auditing procedures and add documentation to the audit file as necessary to fully comply with CICA standards for assurance engagements. A follow-up review by the Practice Review Team will be done.

18. All of the audit engagements needed improvements in most elements reviewed in order to fully comply with the Quality Management System and CICA assurance standards. Elements requiring improvements included consultations, documentation, use of the electronic working tool (TeamMate), risk assessment, quality review, extent of review, assessment of independence, and finalization of files. Two of the three files reviewed were not finalized within the 45-day limit prescribed by Office policy.

19. Details of the opportunities for practice-wide improvements are included in the report under "Opportunities for Improvement." We also identified two areas of strengths and good practices.

Overall management response. *The Practice Review Report identifies a number of important areas where the practice needs to improve in order to ensure compliance with the Office's Quality Management System (which includes professional assurance standards).*

All members of the Executive Committee are fully committed to implementing the management responses included in this report.

The Assistant Auditor General (AAG) Professional Practices Group (PPG) and the Product Leader are committing to take action in order to assist the practice in a full and successful response to the recommendations included in the report. These actions include such things as additional research, discussions with practitioners (including the Principal's Forum), *improving communication efforts, making changes to TeamMate, further explaining and discussing the practice review findings at the Performance Audit Symposium and Accounting and Auditing Update, clarifying guidance, adjusting our methodology, and modifying our training courses and Just-in-time training for special examination teams, where appropriate. Further, in response to training issues identified in this report and the other two summary practice review reports, the AAG PPG will present an overall plan for necessary technical training to the Strategic Planning Committee in autumn 2009 for its approval.*

In our view, the improvements that need to be made cannot be completely addressed by the actions we have committed to alone. In many cases, our methodology is sound, but the execution has fallen short of what was envisioned and expected.

A fully successful Office response requires a commitment throughout the organization to learn and improve based on the findings of these reports. This commitment needs to begin with audit teams reviewing these findings together, and discussing what actions they will take individually and collectively to ensure that their audit work is in full compliance with our Quality Management System. We will use the Performance Audit Symposium and the Accounting and Auditing Update as a forum to inform and discuss with all staff the key findings in these reports, explain the quality control objectives, and outline who is accountable for ensuring that audits comply with these key quality control steps. It is also important that AAGs continue these discussions with their staff at their regular group meetings, participate actively in PX forums, and discuss with the product leaders how their staff's actions can resolve the observations made in the reports. AAGs and PXs will need to lead these discussions and take responsibility for seeing that the required actions are taken.

Strengths and good practices

20. Strengths and good practices for Office-wide consideration are as follows:

- **Involvement of other OAG audit teams.** Each of the audit teams held discussions with the previous examination teams early in the planning process to benefit from their experience and knowledge. Two of the audit teams made effective use of work conducted by the financial audit team in particular, work related to knowledge of the business and to risk and control assessments. Another audit team consulted with other teams who had performed special examinations of similar entities and included members of those teams on their advisory committee.
- **Consultation with external stakeholders.** One audit team consulted with external stakeholders in developing the audit approach for a new process not previously audited by the Office. This increased the credibility of the report.

Opportunities for improvement

21. Each audit team reviewed has received a summary of findings that included specific recommendations. The following observations and recommendations represent common opportunities for improvement across the special examination practice, based on the results of the individual practice reviews.

Documentation

22. In all of the files reviewed, we found that the quality of the documentation could be improved. Incomplete working papers suggest inadequate supervision and review of the work of more junior auditors. Although we were able to accept two out of three files in their totality, the quality of the working paper files needed improvement to meet the CICA standards. The audit teams often had to provide further evidence to support compliance with standards and their audit report. This audit evidence was stored outside the audit file in emails or in other paper or electronic folders.

23. With CICA assurance standards now being reinforced and the Canadian Public Accountability Board recently being created, expectations for file documentation are higher than ever before. Audit files need to demonstrate the procedures performed, evidence obtained, and conclusions reached with respect to the audit criteria and objectives of the examination. Audit documentation needs to clearly demonstrate the work performed.

24. We noted the following areas where improvements in documentation are needed:

- **Key judgments.** For the three files reviewed, the teams could have better documented the rationale for their key judgments made during the audit. Moreover, for the two files where a significant deficiency had been reported, both could have better documented the rationale supporting the deficiency.
- **Audit programs.** For two files, we could not find evidence to support that audit programs had been prepared, approved prior to being used, and/or completed. One audit team did not prepare audit programs for all systems and practices reviewed. In this case, it was difficult to determine if proper procedures were performed to support all the criteria and subcriteria.
- **Reliance on internal audit.** For two files, the team did not document their evaluation of the entities' internal audit function and internal audit work in support of their reliance on this work.
- **Reliance on work performed in the annual audit.** For two files, we noted poor documentation in support of the audit teams' use of work performed in the annual audit files. The audit teams did not reference or sufficiently document the extent of the use of the annual audit work, the relevance of the work to the special examination, and the amount of assurance derived from it.
- **Substantiation.** We also noted that the audit teams did not substantiate the main points and some other observations in the special examination reports. In one case, the substantiation provided was not sufficient to support the conclusions in the report.
- **File review.** For two files, we noted a need to improve the timelines and consistency with which practitioners[1] date and sign off to denote responsibilities for the work performed. The documentation of review and approval occurred very late in the audit or after the release of the examination report, as evidenced by sign-offs in TeamMate. There was no other evidence of review outside of TeamMate.

25. Recommendation. To improve documentation of audit files, the Office should take the following measures:

- Remind practitioners of the documentation and review requirements of the CICA standards. More specifically they should be reminded of the need to document the thought process behind key judgments, support for their reliance on internal audit, audit procedures and work performed,

[1] In the context of this report, the term "practitioner" is intended to mean all individuals who conduct examination work.

substantiation of main points and all observations, as well as the need for timeliness and consistency of their signoff to denote responsibility for work they have done.

- Provide guidance on key sections of the audit file that need to be signed off by the audit principal, the assistant auditor general, the quality reviewer, specialists, and others.

Management response. *Agreed. This recommendation is already reflected in Office methodology and will be reinforced as the Office manuals are updated in 2010 and through forums for discussion with staff. As well, changes to Special Examination (SE) TeamMate will identify key sections of the audit file that need to be signed off by the audit principal, the assistant auditor general, the quality reviewer, specialists, and others. This will be completed by December 2009.*

Electronic file management system (TeamMate)

26. The Office has invested in an electronic file management system named TeamMate that is used for audit file organization and documentation. For the three files reviewed, audit teams used a combination of paper and electronic files. Teams still have many paper files.

27. For all files reviewed, we noted that the file structure and location of audit information was difficult to follow. This may be a result of the Office not clarifying audit documentation standards, substantiation expectations, file structure, and approval and review expectations for electronic working papers. Had this been done, it could have contributed to alleviating shortcomings in documentation noted above.

28. We recognize that over the past year, the Office has made progress in reviewing the TeamMate architecture and adding guidance, templates, and audit steps to the electronic tool. However, without a version control of the TeamMate architecture and library, and communication of changes since the previous version, audit teams have no way of identifying changes to the architecture and library once they have created their file structure. For example, in one case, the team had developed its own structure of TeamMate based on the knowledge acquired from the annual audit practice. In the two other cases, teams used a version of TeamMate but did not always complete the templates and all the audit steps. There was limited explanation of why the templates were not used or where the information could be found elsewhere on file.

29. **Recommendation.** The Office should take the following measures:

- Reconfirm the mandatory use of TeamMate as the main repository of audit information for special examinations.
- Consider offering training for TeamMate for special examinations.

- Determine minimum documentation standards (including those for substantiation, planning, execution, consultation, and review) and update the related guidance to ensure that important information is documented thoroughly and consistently and that proper sign-offs are obtained.
- Update the TeamMate library for special examinations, including evaluating current templates to determine if any should be made mandatory.
- Formally inform practitioners of the nature of changes between versions and consider implementing TeamMate version control. If changes are significant, offer training.

Management response. *Agreed. The Professional Practices Group (PPG) will reconfirm that TeamMate is the main repository of audit information for special examinations.*

PPG is in the process of determining minimum documentation standards applicable to TeamMate in the special examination product line (including those for substantiation, planning, execution, consultation, and review) to ensure that important information is documented thoroughly and consistently and that proper sign-offs are obtained.

PPG will update the TeamMate library for special examinations to be consistent with the Annual Audit TeamMate model, which uses "TeamStore." PPG will inform practitioners of the changes and implement version control.

These updates to TeamMate will be completed by December 2009. PPG will develop and offer training for these changes to TeamMate as appropriate.

Extent of review

30. In two of the three files reviewed, we saw little evidence of management's involvement in the review of key decisions made during the audit, and substantiation. While it was obvious that management was involved in the audit, based on the time charged, it was difficult to determine the extent and timeliness of their involvement as this was not well documented. There was limited evidence that the files had been reviewed. We also noted that in two files, the audit strategy could have been better documented and approved by the audit principal, as required by Office policy.

31. Assurance standards require that working papers be reviewed. Review responsibilities are determined on the basis that more experienced team members review work performed by less experienced team members in order to determine, among other things, that evidence obtained is sufficient and appropriate to support the report. We noted in our review of the electronic working papers that TeamMate allows the same individual to sign off as both preparer and reviewer of a working paper. In our view, this functionality presents

a risk that work carried out to support the report and key working papers used for substantiation would not be appropriately reviewed.

32. Recommendation. To improve review of audit files, the Office should reactivate the TeamMate functionality, which prohibits an individual from preparing and reviewing the same working papers.

Management response. *Agreed. The Professional Practices Group will have the TeamMate functionality reactivated to ensure that an individual cannot both prepare and review the same working papers for special examinations. This will be completed by December 2009.*

Consultation

33. The Interim Policy on Consultations and Procedures to Resolve Differences (Dec. 2005) provides guidance on consultations and related documentation requirements, including documentation of the team's disposition of the comments provided by the internal specialists and advisors. We found that the documentation of consultations for all three special examinations reviewed needed improvements. It was not always clear that the audit team had carried out appropriate consultation, as required by assurance standards and Office policy.

34. We noted that advice from internal specialists, internal and external advisors, the Annual Audit and Special Examination Management Committee, and the Special Examination Practice Team (SEPT) was not always appropriately addressed. We also noted that comments received from entities could be better documented and disposed of, and that internal specialists are not required to sign off on the Report Clearance Memorandum.

35. Although SEPT reviews the planning and reporting of each special examination to encourage a risk-based approach and ensure quality and consistency of judgment, the Office has yet to clarify this team's role, authority, and accountability relationship with the Special Examination Product Leader. We found that for two of the three files reviewed, the comments provided by the SEPT were not always disposed of and the dispute mechanism was not followed.

36. We noted that for all three files, the Special Examination Product Leader was not involved in the review of the special examination plans and reports. In our view, the roles and responsibilities of the Product Leader and the Special Examination Practice Team need to be clarified in the conduct of special examinations.

37. Recommendation. The Office should take the following measures:

- Clarify the roles of internal specialists, the Annual Audit and Special Examination Committee, the Special Examination Practice Team, and the

Product Leader. The dispute resolution process should be reviewed and clarified appropriately.

- Make it mandatory for all internal specialists, the Product Leader, and other parties consulted to sign off on the accountability document, demonstrating that conclusions reached are documented and that parties agree with the conclusions arising from consultations, prior to the release of the report.

Management response. *Agreed. The need for the clarification of the roles and responsibilities was identified in the QMS Diagnostic Report. This initiative was included in the OAG Action Plan agreed to by Executive in April 2009. This will be completed in September 2009.*

The update to SE TeamMate will ensure that consultations are documented and appropriate sign-offs are obtained. This will be completed by December 2009.

Quality review

38. Quality review is an important element of quality control within the Office. Quality reviewers are appointed to special examinations on a risk basis. Practitioners may also request to have a quality reviewer assigned to their examination when the examination does not meet the criteria for appointing one automatically. Two of the three special examinations reviewed had quality reviewers assigned to them.

39. We noted that the quality review of these two examinations did not fully meet the requirements of the assurance standards and Office policy and guidance. Our review indicates a need to improve the nature, extent, and timing of the quality review. In both files reviewed, there was no evidence that the quality reviewers had reviewed substantiation. Moreover, there was little evidence that significant judgments made by the examination team or work performed on higher-risk areas were reviewed prior to release of the report.

40. For both files, we found that the time spent by the quality reviewer often appeared to be too little, too late. The file was accessed very late in the examination process, in both cases after the report was released to the Board of Directors for the entity. One quality reviewer was not given access to the file until after the examination report had been issued, though he had requested it from the team several times prior to that. While we noted that some information was provided by audit teams to the quality reviewers, documentation of the consultations, work performed, and conclusions reached could be improved.

41. For one of the examinations, the quality reviewer assigned was new to this role and at a level below that usually assigned for quality reviewer. This individual did not receive any training for his duties.

42. The role of the quality reviewer does not appear to be well understood by either the quality reviewer or the audit team. In our view, additional training and guidance is needed.

43. Recommendation. To improve quality review, the Office should

- review guidance and clarify expectations on the role of quality reviewers,
- offer training to quality reviewers and to practitioners on their roles and responsibilities related to quality review of a special examination, and
- develop a mandatory checklist(s) to assist the quality reviewers in performing their duties in accordance with assurance standards and Office policies.

Management response. *Agreed. The role of quality reviewers has been clarified by the Office and was communicated to staff by a practice advisory in May 2009.*

The Professional Practices Group (PPG) is currently developing new checklists for special examinations to provide improved guidance to quality reviewers. These checklists will be finalized and in place by December 2009.

PPG will develop and offer guidance and training for quality reviewers and audit practitioners as appropriate.

Risk assessment

44. In our last report on the Special Examination Practice issued in August 2007, we noted that more focus on risk-based examinations was needed.

45. We noted that the risk assessment needs improvement in all files reviewed. Audit teams could better link their risk assessment to the selection of key systems and processes for detailed review and/or adequately document the support for the exclusion of certain systems and practices from further detailed examination. It was difficult to determine if too little or too much work was performed. Decisions on planning and extent of work could be better documented.

46. We understand that the Office is developing a tool to better document risks and link them to the selection of key systems and practices to be examined and the planned audit approach.

47. Recommendation. The Office should consider our findings on improving the methodology for risk-based special examinations.

Management response. *Agreed. The Risk-Based Special Examination Planning and Scoping Guide was approved in March 2009. The document is being edited and translated. Once it is available, it will be disseminated. This will be completed by September 2009.*

Independence

48. Assurance standards require that auditors be independent of the entity they are auditing. Accordingly, threats to independence and safeguards used to reduce such threats to an acceptable level must be assessed and documented. The Office has specific policies and procedures designed to avoid independence infractions. Notably, each auditor is required to complete a declaration of independence form for each assurance engagement. This form is to be placed on the examination file.

49. For one file reviewed, documentation of what was done to assess individual team members' independence could have been improved. For the other two files reviewed, some mandatory independence forms were not completed, not placed on file, and not signed off by the practitioner on a timely basis.

50. We also noted that the Office does not currently require that individuals advising the engagement team in the conduct of their audit sign a declaration of independence. These individuals include the Auditor General, the Deputy Auditor General, quality reviewers, internal advisors, internal specialists, and information technology staff.

51. Recommendation. The Office should

- formally clarify that all individuals involved in performing audit work, including quality reviewers, specialists, and others, are required to be independent and to complete the requisite form; and
- remind employees that all independence forms are to be completed and approved early in the audit before audit work begins and filed appropriately.

Management response

- *Agreed. The Professional Practices Group will issue a practice advisory for all product lines clarifying independence requirements in September 2009. These requirements will be incorporated into audit manuals as they are updated.*
- *Agreed. The need to have completed and approved independence forms in place before work on an audit begins will be reinforced through forums for discussion with staff.*

Reporting requirements

52. Assurance standards require that practitioners identify the criteria against which the subject matter was evaluated. For the performance audit practice, sources of criteria are disclosed in the "About the Audit" section of each report. In our view, it would be beneficial for the special examination practice to adopt the

same practice so that intended users can better understand the basis upon which practitioners formed their conclusions. This would also provide consistency among practices.

53. Recommendation. The Office should include the sources of criteria in each special examination report.

Management response. *Agreed. The requirement that sources for criteria be included in each special examination report will be included in the next version of the Special Examination Report Template. The next version will be available January 2010.*

Finalizing audit files

54. The Office's policy on finalizing audit files requires that special examination files be completed 45 days after the date the report is released. This is defined as the date when the transmittal letter is sent to the Board of Directors of the Corporation under examination. Files may be kept open longer, if warranted, with approval from the Assistant Auditor General (AAG).

55. We noted that all three audit files reviewed were not finalized within the requirements of Office policy. For two of the three files, teams made changes to the files after the 45-day limit and did not document the nature and extent of these modifications or obtain AAG approval as required. For one audit, the files were still not finalized more than seven months after the report was issued.

56. Recommendation. To ensure compliance with Office policy on finalizing files, the Office should

- remind audit staff of the requirements of the standards and of Office policy and expectations on the file finalization and date of release of the report, and
- consider the feasibility and practicality of introducing automatic closure of the audit files.

Management response

- *Agreed. Document completion policies for all product lines are clearly laid out in a February 2007 practice advisory and will be incorporated into audit manuals as they are updated. These requirements will be reinforced through forums for discussion with staff.*

- *Agreed. The Professional Practices Group and the product leaders will work with the IT Group (Corporate Services) to investigate and conclude on the appropriateness of automatic closure of audit files, including time lines for changes if required, by the end of November 2009.*

Follow-up of management actions on prior practice review recommendations

57. As part of the current year's practice review, we conducted a follow-up of the 2007 practice review recommendations. For a complete update on the status of the implementation of past recommendations, as well as the expected date of completion, see Appendix C.

58. We applied the following ratings in assessing the progress made on past recommendations:

- **Completed.** Most of the original recommendation has been fully addressed.
- **Partial implementation.** Some progress has been made to address the recommendation but action is still required to achieve the desired results.
- **Limited implementation.** Little progress has been made in addressing the recommendation; much more action is required.

59. Management has recently identified the updating of the special examination practice as a priority for the Office. Two recommendations noted in 2007 have been fully implemented; progress has been made in all other areas.

Opportunities for audit efficiencies

60. The practice review team noted one opportunity for improving audit efficiency related to the monitoring of significant deficiencies and observations reported in the special examination.

61. In light of the recent changes in the *Financial Administration Act* changing the reporting period from 5 to 10 years, regular updating of knowledge of business and follow-up of progress made by the audit entity on special examinations recommendations should be performed. The Office should consider monitoring actions taken by entity management to address observations and recommendations on a periodic basis. This could contribute to both enhancing management practices in Crown corporations and achieving efficiencies in future special examinations by maintaining knowledge of business.

Conclusion

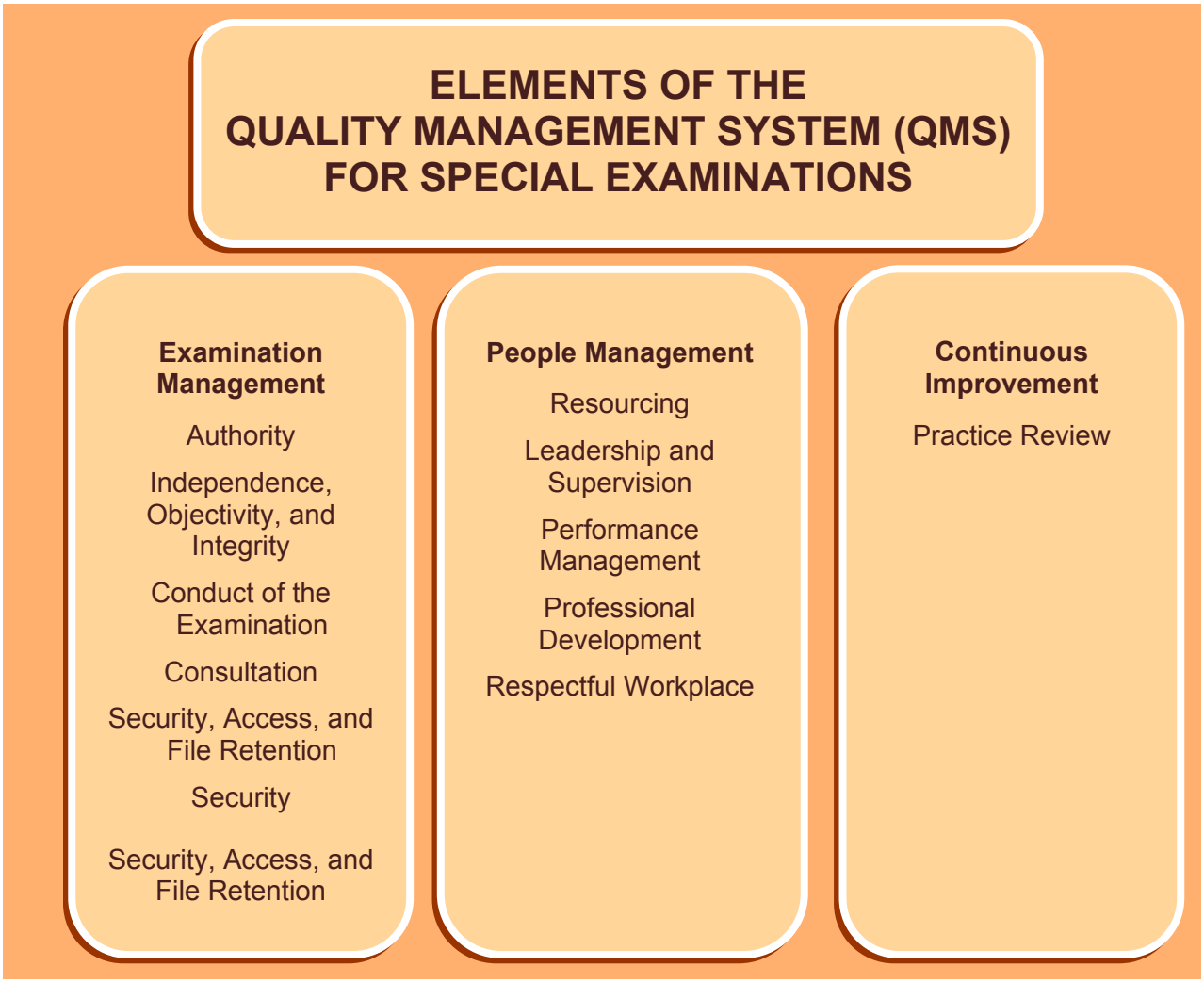
62. Based on the three practice reviews performed and our cumulative knowledge, we conclude that for the elements of the Quality Management System reviewed, the design and the implementation of the Quality Management

System need to be improved to ensure compliance with professional standards and Office policies and practices for special examinations. We found that the audit reports contained sufficient and appropriate evidence for two of the three files reviewed, but the files needed improvements to fully comply with the Quality Management System and CICA standards for assurance engagements. The third file did not comply with the Quality Management System and professional standards for assurance engagements, and we concluded that there was not sufficient and appropriate evidence in the file to support some observations and conclusions in the special examination report.

63. Observations and recommendations were discussed with management, and all agreed with the recommendations.

64. We wish to express our appreciation to all those who conducted practice reviews of special examinations, to the audit teams that cooperated with the reviews, and to all others who reviewed the results of practice reviews and follow-up of prior practice review recommendations on either a team and/or Office-wide basis.

Appendix A—Quality Management System for special examinations



Appendix B—Quality Management System elements and process controls reviewed

Our review covers the following Quality Management System elements:

Conduct of the examination—Planning. We determined whether the work was adequately planned and whether key systems and practices were selected for detailed examination on the basis of risk. We also assessed whether the team supports its decision to exclude certain systems and practices from further examination. As well, we determined whether suitable criteria for evaluating the subject matter were identified and developed. Attention was given to whether planned audit work was carried through to examination and reported.

Conduct of the examination—Examination. We looked at the substantiation files and other audit files to determine whether sufficient and appropriate evidence was obtained to provide a reasonable basis to support the conclusion in the report.

Conduct of the examination—Reporting. We reviewed the report to determine whether it addressed all key systems and practices and the associated criteria and whether it was relevant, coherent, clear, and credible. We also determined whether the oversight of the report effectively ensured consistency with the Office's mandate and principles, and past corporate decisions.

Finalization of audit files. We determined if audit files were closed within 45 days of transmittal of the report to the Board of Directors of the entity, as required by Office policy.

Consultation. We determined whether consultation was sought from authoritative sources and specialists with appropriate competence, judgment, and authority to ensure that due care was taken, in particular when dealing with complex, unusual, or unfamiliar issues. We also determined whether the consultations were adequately documented, and whether the audit team took appropriate and timely action in response to the advice received from the specialists.

Resourcing. Based on interviews with staff and a review of documents, we determined whether audit teams had collective knowledge of the subject matter and the auditing proficiency necessary to fulfill the audit requirements. As well, we determined whether the individuals carrying out the work had adequate technical training and proficiency. We also considered the number of staff and the timing of their availability.

Independence. We determined whether all individuals performing the audit, including specialists, were independent in carrying out their responsibilities and in forming their conclusions.

Leadership and supervision. We determined whether individuals working on the audit received an appropriate level of leadership and direction. We also determined whether adequate supervision of all individuals, including specialists, was provided to ensure that audits were properly carried out, and whether all team members were encouraged to perform to their potential, and all received appropriate recognition.

Our review of the quality reviewer's role also covers the following key process controls:

Review by the quality reviewer. We determined whether an eligible quality reviewer provided advice to the audit Principal on risk areas and significant communications with the entity and the signatory in a timely manner.

Documentation. We determined whether the work of the quality reviewer was adequately documented.

Subsequent actions. We determined whether the audit team took appropriate and timely action in response to the advice received from the quality reviewer.

Appendix C—Status of actions taken by management on recommendations of the 2007 Practice Review Report on the Special Examination Practice

Recommendations—2007	Management response—July 2007	Status as of March 2009
Methodology The methodology for the special examination practice should be updated to reflect the suggestions for improvement listed below. As well, it should draw on the methodological base and experience of the performance audit practice to the extent possible. The methodology for special examinations could be improved by **(a)** updating the manual for changes to CICA standards; incorporating recent practice advisories and planning principles; and new processes such as the quality reviewer and new tools such as TeamMate; **(b)** finalizing the governance guide and developing criteria and subcriteria on financial management; **(c)** finalizing the special examinations booklet (a non-technical document written for an external audience); **(d)** developing specific guidance for the quality control review by the quality reviewer;	**Response of Special Examination Product Leader.** Agreed. The Special Examination Practice Team has prepared a plan designed to improve the Quality Management System and methodology for special examinations. The plan identifies changes to be implemented beginning in fall 2007 and ending in early 2009. Included in this plan are improvements to the methodology that will address all of the items noted above.	**Methodology overall—partial implementation** **(a) Limited implementation** The Office is currently preparing an Office-wide manual, which will include elements common to all product lines. Once this is complete, a Special Examination manual will be developed to include only those elements specific to special examination. **Planned implementation:** December 2010 **(b) Partial implementation** A "Core Control Model for Special Examinations of Crown Corporations" is in draft stage and includes criteria and subcriteria for governance and financial management. **Planned implementation:** Fall 2009 **(c) Limited implementation** Work has just begun on this recommendation. **Planned implementation:** December 2009 **(d) Partial implementation** Details are currently being addressed on a corporate-wide basis for all product lines. **Planned implementation:** September 2009.

Recommendations—2007	Management response—July 2007	Status as of March 2009
(e) formalizing criteria to determine when a quality reviewer is appropriate (not every special examination has a quality reviewer); and **(f)** reviewing and updating the Quality Management System (QMS).		**(e) Partial implementation** In January 2009, the Executive Committee approved revisions to Office policies to assign quality reviewers to individual audits on a risk basis. The specific criteria for appointing a quality reviewer have yet to be formalized. **Planned implementation:** September 2009 **(f) Partial implementation** A review of the Quality Management System for the Office is complete. An action plan has been developed to address the recommendations from this assessment. A review of the policies and processes related specifically to the QMS for special examinations has yet to be completed. **Planned implementation:** No deadline has been identified.
Professional Development The Office should develop the courses outlined in the new professional development curriculum and consider developing self-learning material or a course that could be delivered by an external organization.	**Response of the Assistant Auditor General Corporate Services.** Agreed. As part of the plan noted earlier, the content for appropriate special examination guidance and training is currently under development. In fall 2007, prior to the development of a new Quality Management System and methodology, a series of three senior practitioners' forums will be held, and just-in-time training will be provided to all special examination teams as needed. TeamMate is the third course in this series. "Lessons learned" from the fall interim training will feed into a more formal, "repeatable" course design for 2008. Self-learning material may be an option, depending on the circumstances of Round 5.	**Partial implementation** Substantial progress has been made; some training has been offered as planned. However, two other courses included in the professional development curriculum have yet to be developed. The Professional Practices Group has recently been given the responsibility for training for all product lines. **Planned implementation:** No deadline has been identified.

Recommendations—2007	Management response—July 2007	Status as of March 2009
	The Special Examination Practice Team in Strategic Planning and Professional Practices will work with Professional Development to ensure the development of appropriate special examination content material.	
Use and updating of TeamMate The requirement and circumstances for the use of TeamMate in special examinations should be made clear to teams. As well, TeamMate should be updated for recent practice advisories and the work required by the quality reviewer. Standard examination procedures should be developed and maintained in TeamStores.	**Response of Special Examination Product Leader.** Agreed. The requirement for the use of TeamMate will be reinforced in fall 2007 through courses, just-in-time training, and communiqués with examiners. The TeamMate library will be updated with audit steps, examination procedures, guidance, templates, and quality control processes to the extent they are in place in fall 2007. This will constitute a "first release" of the TeamMate software. Further, as the teams make full use of TeamMate starting in fall 2007, the quality reviewers will find all the material they require in TeamMate. The subsequent releases of enhancements to TeamMate, including changes to the QMS and the methodology, will need to be planned.	**Full implementation** TeamMate (TM) is currently being used by all audit teams working on this product. The TM library was last updated in late 2007 as planned. Another update is under way. **Planned implementation:** Ongoing; the next version is expected to be released in summer 2009.
Documenting the Examination There should be a requirement for an examination control file that contains key reports, approvals, and decisions. There should be a specific requirement in the Special Examinations Manual to prepare substantiation files, and guidance should be developed on how evidence should be documented in the files.	**Response of Special Examination Product Leader.** Agreed. Both the control file and guidance on substantiation will be included as required audit steps in the next release of TeamMate. When available, additional guidance in these two areas will be included in TeamMate.	**Partial implementation** The requirement for substantiation files and key aspects of a control file were included in the 2007 TeamMate release. More guidance is needed on how to prepare substantiation files and document evidence in TeamMate. **Planned implementation:** The deadline has not been identified as this has been identified as a low priority.

Recommendations—2007	Management response—July 2007	Status as of March 2009
Tracking System A tracking system for special examinations should be developed. Key production dates should be entered into that system and progress against the key dates should be monitored.	**Response of Special Examination Product Leader and Assistant Auditor General Corporate Services.** Agreed. A preliminary tracking system will be in place for Round 5 in 2008. The Special Examination Practice Team will work with the Information Technology team to develop and prepare the reports.	**Full implementation** Progress of special examinations against their budgets and expected date of completion are now tracked on a monthly basis by Corporate Services. Key production dates are monitored by the Office's Communications Group. Templates have been developed to assist teams in tracking their progress during the examination.
Review of Special Examination Practice The Office should consider carrying out a review of the practice or a similar review for special examinations. The review could include a review of risk assessment, **(a)** use of follow-up procedures, **(b)** guidance on identifying significant deficiencies, **(c)** length of the special examination report, and **(d)** potential legislative changes.	**Response of Special Examination Product Leader.** Agreed. Each of the items noted above will be addressed starting in fall 2007 with preliminary messages by the Product Leader and the Special Examination Practice Team as well as through the fall training sessions. A review will occur, but likely not in the traditional sense. It will be done simultaneously with developing guidance with respect to existing or new criteria and subcriteria, modelling the practice on the performance audit practice, and obtaining feedback received in practitioners' forums, which are taking place in fall 2007. Further guidance in each of these areas will be available in 2008.	**(a) Partial implementation** Guidance on risk-based special examinations was approved for mandatory Office-wide use in March 2009. The guidance has not yet been disseminated throughout the Office. **Planned implementation:** September 2009 **(b) Complete** The Office has clarified its position and methodology on the use of follow-up procedures when performing special examinations. **(c) Partial implementation—no new progress** The Professional Practices Group feels that there is already sufficient guidance on identifying significant deficiencies included in the Special Examination Manual. However, audit teams need more guidance on documenting the decisions and rationale for determining what a significant deficiency is. All sections of the Special Examination Manual will be reviewed as part of the update. **Planned implementation:** December 2010

Recommendations—2007	Management response—July 2007	Status as of March 2009
		(d) Complete The length of a special examination report has been set at not more than 8,000 words. **(e) Complete** The Office has reviewed the impact of changes to legislation, and adjustments were made to the special examination schedule to reflect new requirements.