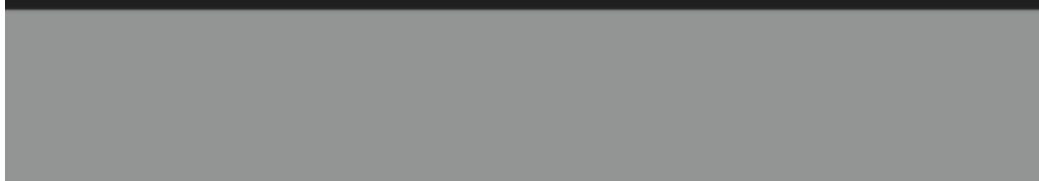




Public Service Commission
of Canada

Commission de la fonction publique
du Canada



Audit Manual

Public Service Commission of Canada

January 2005

Canada

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Maria Barrados, PhD
President
Public Service Commission
of Canada

Quality auditing depends on strong methodology and guidance. An important part of building up our audit capacity has been to set out our methodology. I am pleased to launch this *Public Service Commission (PSC) Audit Manual*, which has been developed specifically for the Audit Branch to conduct PSC audits and studies.

This is the first major audit manual developed by the PSC at a critical time in its history. The new *Public Service Employment Act*, which received Royal Assent in 2003 and which is scheduled to come into force by the end of 2005, sets a new course for the PSC. It calls for an increase in the delegation of authority to make appointments to government departments and agencies and for the PSC to conduct independent audits and report to Parliament on the integrity of the appointment process, including the protection of merit and non-partisanship.

The *PSC Audit Manual* sets out the audit framework and provides a set of comprehensive audit policies that govern the conduct of all audits and studies by the Audit Branch. It also includes the PSC Audit Code of Professional Conduct, which must be followed in addition to the *Values and Ethics Code for the Public Service*.

This Manual and the audit policies it contains are based upon current standards of the audit profession and other disciplines. Following this guidance and these policies will permit the PSC to achieve its audit mandate and the standards for compliance and performance auditing in the public sector.

The *PSC Audit Manual* is a result of an extensive research and consultation of standards and best practices of other legislative audit offices, audit standards-setting bodies and other disciplines. In developing this Manual, the PSC drew on the knowledge of others and adapted it to build and develop its own approach and methodology to fulfill its audit mandate.

The goal of the PSC Audit Branch is to make an important contribution to providing objective information, advice and assurance to Parliament, and ultimately Canadians, about the integrity of the appointment process, including the protection of merit and non-partisanship.

The *PSC Audit Manual* is an important tool to be used in all PSC audit work. It is expected to be kept current with all future audit standards development for the public sector. It will be updated as audit practices and tools continue to be developed and improved in the PSC.

January 2005

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For comments and suggestions, please contact the PSC's Audit Branch.

*Readers can access the PSC Audit Manual on the PSC Web site **www.psc-cfp.gc.ca**.*

Le Manuel est disponible en français.

Introduction

Preface

The Public Service Commission (PSC) of Canada is an independent agency reporting to Parliament. Under the current *Public Service Employment Act (PSEA)* and the new *PSEA*, which received Royal Assent in 2003 and which is scheduled to come into force by the end of 2005, the PSC is vested with the authority to make appointments to and within the federal Public Service. The new *PSEA* states in its preamble that the delegation of this authority should be to a level as low as possible within departments and agencies, to give Public Service managers the necessary flexibility to staff, manage and lead their personnel to achieve results for Canadians.

The new *PSEA* sets a new course for the PSC by focussing its mandate on safeguarding the integrity of the appointment process, including the protection of merit and non-partisanship. The Act also calls for the PSC to conduct independent audits to provide assurance on the integrity of the appointment process.

Use of the Audit Manual

The *PSC Audit Manual* sets out the audit framework and related policies that govern the conduct of all audit work. These policies were developed for the PSC to carry out audits pursuant to the *PSEA*. They represent the minimum requirements that must be met in the conduct of audits by the PSC of matters within its jurisdiction.

The PSC audit policies are written as ‘should’ statements. These policies are to be complied with, along with the PSC Audit Code of Professional Conduct, which is contained in Appendix A of this Manual. Any disagreements with any policies and the Code, or inability to comply with any of them, should be immediately brought to the attention of the Vice-President, Audit Branch, for resolution.

The purpose of the Manual is to:

- provide guidance to auditors in complying with these policies;
- assist auditors in achieving the highest possible quality in PSC audits;
- promote the highest level of professional competence in PSC auditors;
- provide a basis for measuring audit performance; and
- allow others outside the PSC Audit Branch to gain a better perspective and understanding of the practices and professionalism of the Audit Branch.

The Manual describes the PSC audit methodology, explaining in broad terms how 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.

Organization of the Audit Manual

The Manual generally follows the structure of the PSC audit policies which are introduced in Chapter 1. A short description of each chapter is provided below.

Chapter 1 - PSC Audit Framework: defines PSC audits, describes the PSC audit mandate, sets out PSC audit policies, positions the PSC Audit Code of Professional Conduct, clarifies PSC auditors' right to access to entity information, and lists audit roles and responsibilities within the PSC.

Chapter 2 - Discharging the PSC's Audit Mandate: describes the overall PSC audit planning process, its link to risk analysis, the audit selection process, and the development of audit plans.

Chapter 3 - Conducting PSC Audits: sets out the policies for audit conduct and the practice expectations for fulfilling those policies. It also introduces the PSC audit process.

Chapter 4 - Audit Planning Phase: sets out audit planning policies and practices.

Chapter 5 - Audit Examination Phase: sets out audit examination policies and practices.

Chapter 6 - Audit Reporting Phase: sets out audit reporting policies and practices.

Chapter 7 - Audit Follow-up Phase: sets out audit follow-up policies and practices.

Chapter 8 - Study Policies: defines PSC studies and their purpose, and sets out study policies and practices.

Chapter 9 – Audit Quality Management Framework:

Acknowledgements

The *PSC Audit Manual* is a result of an extensive research and consultation on the standards and best practices of other legislative audit offices, audit standards-setting bodies and other disciplines. In developing this manual, the PSC drew on the knowledge of others and adapted to build and develop its own approach and methodology. In particular, this Manual drew extensively from the *Manual on Performance Audit* of the Office of the Auditor General of Canada

1 PSC Audit Framework

PSC Audit Mandate

Both the current and new PSEA give the PSC the authority to conduct audits on any matter within its jurisdiction. The new Act, which comes into force at the end of 2005, provides the PSC further authority to audit and make recommendations on the exercise of authority by deputy heads in setting qualifications, requirements and needs. The new PSEA envisions a more fully delegated model. Therefore, the PSC must exercise greater due diligence through audits in order to assure Parliament of the integrity of the appointment process.

The PSC audit mandate covers all departments and agencies to which it has delegated staffing authority. It also includes the PSC itself, for its non-delegated staffing responsibilities and for its overall direction to departments and agencies on policies and procedures for safeguarding the integrity of the appointment process.

The PSC's Audit Branch carries out the audit function.

Definition of PSC Audits

Audits are objective and systematic examinations of activities that provide independent assessments of the performance and management of the activities. They also provide information, observations and recommendations. In the context of the PSC's mandate, audits are performed on the staffing activities of government departments and agencies to provide objective information, advice and assurance to Parliament—and ultimately Canadians—on the integrity of the Public Service appointment process.

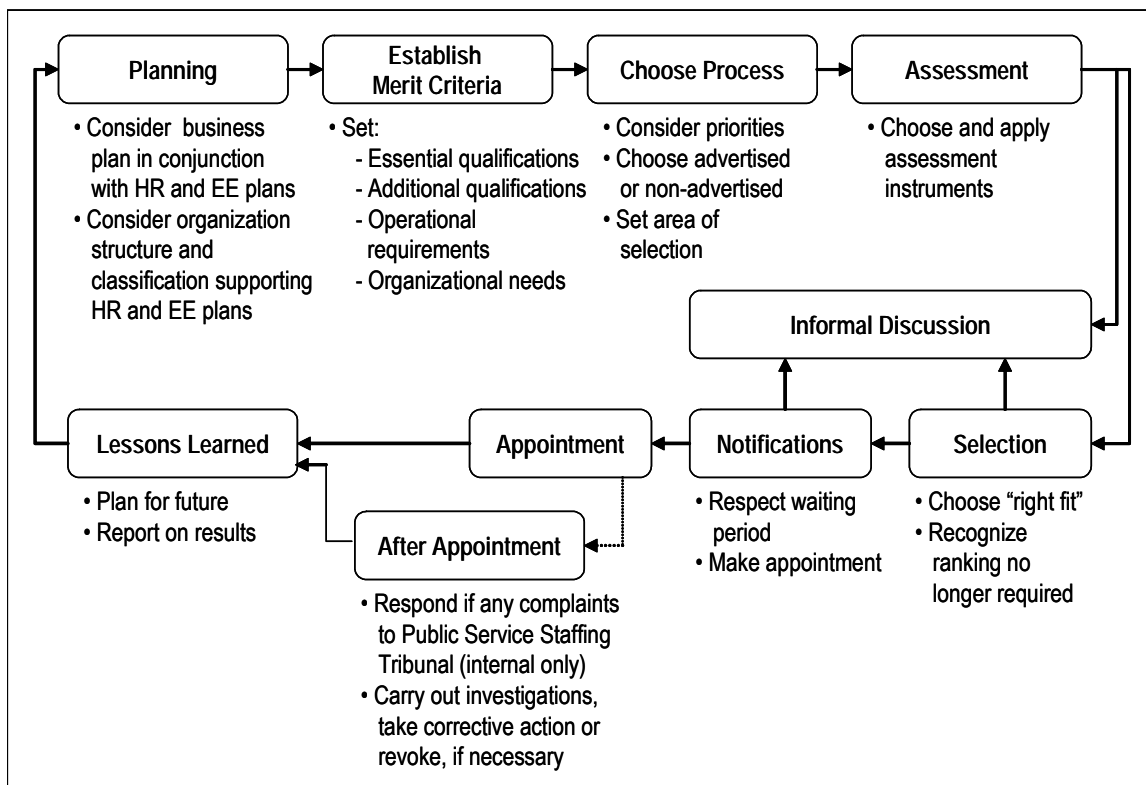
Audits can be conducted on individual government entities or on government-wide issues. When the need arises, the PSC may work jointly with other government organizations, including the Canadian Human Rights Commission and the Office of the Auditor General of Canada.

PSC Audit Scope

To achieve its audit mandate, the PSC will conduct audits within its jurisdiction, including any matter under the staffing authority delegated by the PSC to deputy heads of departments and agencies. The appointments will be examined from several perspectives, including respect for merit and non-partisanship, respect for core staffing values, qualifications, representativeness, and any other concern or matter of interest related to the appointment process.

The audit scope will encompass all areas associated with the appointment process, including the human resources management framework for governance, planning, staffing policy, communications, controls and performance measures used for monitoring results by departments and agencies with delegated staffing responsibility. The audits could cover any or all areas related to key decision points during the course of the appointment process, from the planning stage, which involves human resources planning, the identification of HR needs and essential qualifications, and the staffing and selection process, to the appointments themselves, and may include related matters that occur subsequent to the appointments (for example, the process for informal discussion on internal appointments or investigations). Exhibit 1.1, showing the key decision points of the appointment process, provides insights on the scope of PSC audits.

Exhibit 1.1: Key Decision Points of the Appointment Process



Since staffing is interrelated with a number of HR areas, such as HR planning, classification, employment equity and others, PSC audits may examine these associated areas to determine the factors and causes that affect staffing decisions or have an impact on the appointment process. PSC auditors can establish criteria based on such sources as the PSEA and the PSC, and those best practices of organizations inside or outside of the federal public service that have similar activities or operation. For the PSC to conduct staffing audits effectively, and to be able to report to Parliament on the integrity of the appointment process, it is critical for the PSC to examine and make recommendations, or comment on any relevant HR areas that have a direct or indirect impact on staffing.

PSC Audit Policies

The PSC audit policies embody *PSEA* requirements that must be met in the PSC's conduct of audits within its jurisdiction. These policies draw upon the relevant standards and practices for compliance and performance auditing in the public sector, including those of the Canadian Institute of Chartered Accountants (CICA), as well as the standards and practices of other jurisdictions and disciplines.

PSC audits are required to be conducted in compliance with PSC audit policies and the PSC Audit Code of Professional Conduct.

General Policies

- The PSC Audit Code of Professional Conduct, the *Values and Ethics Code for the Public Service*, and other PSC policies should be adhered to in all audit activities.
- All audits should be managed as projects.
- All audits should be conducted within a quality management system.
- Deputy heads and their senior managers should be informed of their responsibilities with respect to audits performed by the PSC.
- The long-range and annual audit plans for the PSC should ensure that matters of significant risk relevant to the PSC's mandate and priorities are audited or studied in a timely fashion, and that the requirements of the PSC's mandate are met.

Audit Conduct Policies

The audit team should:

- exercise due care and professional judgement;
- comprise individuals who have an objective state of mind and who are independent;
- have a collective knowledge of the subject matter and the auditing proficiency necessary to fulfil the requirements of the audit;
- ensure proper supervision of all of its members;
- seek from managers of the entity being audited their views about critical elements of the audit; and
- obtain appropriate and sufficient consultation and advice throughout the audit.

Audit Planning and Examination Policies

Audits should:

- be adequately planned to meet the audit's objectives in an effective and efficient manner;
- have clear objectives that can be concluded against;
- have a clear scope that focusses the extent, timing and nature of the audit;
- select issues on the basis of their relevance to the PSC's mandate, significance and auditability;

- have suitable criteria that focus the audit and provide a basis for developing observations and conclusions;
- have appropriate and sufficient evidence to support the contents of the audit report;
- objectively evaluate the evidence against the criteria to develop observations and conclusions;
- when deficiencies are reported, include recommendations to guide necessary corrective actions; and
- have necessary and sufficient observations to support the conclusions reached against each audit objective.

Audit Reporting Policies

Each audit should result in a report that has been edited to communicate in a clear, precise, persuasive and effective manner, using plain language. The report should include:

- the objectives, nature, scope and time period covered by the audit, including any limitations;
- the professional standards and policies adhered to;
- a description of the appointment process or other activity that was audited;
- the criteria used and any disagreement with management of the audited entity on their suitability;
- the observations made;
- the conclusions reached regarding each audit objective;
- the recommendations that were made to guide corrective action; and
- comments provided by management of the audited entity, including planned action in response to the audit and any differences of opinion.

Audit Follow-Up Policies

Follow-up audits should:

- be conducted no later than two years after the completion of an audit; and
- result in a report that provides an assessment of the adequacy of the corrective action taken to resolve previously reported issues.

PSC Audit Code of Professional Conduct

The PSC Audit Code of Professional Conduct adds to the professional discipline required in the conduct of PSC audits. Along with the PSC audit policies and other policies, it guides Audit Branch employees on a daily basis. The Code must be followed in addition to the *Values and Ethics Code for the Public Service*, to which all public servants must adhere. The PSC Audit Code of Professional Conduct is provided in Appendix A.

Access to Information to Fulfill Audit Responsibilities

Section 135 of the new *PSEA* (and section 7 of the current *PSEA*) states: “Deputy heads and employees shall provide the Commission with any facilities, assistance, information and access to their respective offices that the Commission may require for the performance of its duties”. Furthermore, section 18 states that “in conducting an audit, the Commission has all the powers of a commissioner under Part 1 of the *Inquiries Act*”.

In view of such access, however, the PSC has a corresponding obligation to ensure that it does not disclose or act in a manner that results in the disclosure of information held by an entity being audited that would not otherwise be accessible.

Information requests by PSC auditors are to be germane to the fulfillment of audit responsibilities.

Government officials recognize their obligation to co-operate with the PSC and normally provide information on request. Auditors who encounter problems with access should consult the PSC’s Legal Services before agreeing to any restrictions on the right to information. Denial of access to information should be reported to the Vice-President, Audit Branch.

At the beginning of an audit, the Vice-President, Audit Branch, should send a letter to the entity being audited, informing them that disclosure of documents to the PSC is in compliance with the *PSEA*, and that a solicitor/client document given to the Commission during an audit does not constitute a waiver of solicitor-client privilege. This would allow the entity to preserve solicitor-client privilege while meeting the Commission’s information needs.

Information that deals with matters covered by solicitor-client privilege should not be divulged without the express consent to waive this privilege by the entity being audited.

Audit Roles and Responsibilities

Many groups and individuals in the PSC contribute to the cost-effective completion of a PSC audit and a quality audit report. They provide expert advice, guidance, legal counsel, challenge and review, methodology, audit tools, and assistance in editing, translating and presenting the report. Their roles and inputs are noted in various sections of this Manual.

The final audit report is the result of the joint efforts of these individuals. Below is a brief description of the roles and responsibilities of the directors general, managers, audit team members, the Vice-President, Audit Branch, and the quality reviewer for a typical audit.

Directors General

Audit directors general have responsibility for the conduct of PSC audits and for ensuring the quality of audits produced by the team. The responsibilities include:

- maintaining an adequate knowledge of the entities or functions being audited;
- maintaining effective departmental relations;
- managing all aspects of the audits pertaining to the entities being audited, and coordinating with other teams on audits affecting those entities;
- leading the audit team, delegating responsibilities, monitoring progress and reviewing performance;
- managing budgets and the timely completion of audits;
- seeking counsel and expert advice throughout the audit;
- reviewing draft audit reports;
- advising the Vice-President, Audit Branch, on the progress of audits and emerging problems;
- involving the Vice-President, Audit Branch, the quality reviewer and the Audit Advisory Committee (AAC) (see Chapter 3 for details) on all important audit matters, and documenting decisions;
- providing assurance to the Vice-President, Audit Branch on audit quality and documentation, including:
 - ◆ the adequacy of the evidence to support major observations, conclusions and recommendations prior to issuing the external draft; and
 - ◆ the completion and review of the substantiation binder to support all observations, conclusions and recommendations prior to issuing the final draft;
- ensuring compliance with all PSC audit policies;
- recommending to the Vice-President, Audit Branch that the external draft and the transmission draft be forwarded to the audited entity; and
- recommending to the Vice-President, Audit Branch that the report be approved for publication.

Managers and Senior Auditors

Audit directors general delegate to audit managers and senior auditors some of the responsibilities for the conduct of individual audits. These responsibilities may include:

- initiating the audit planning phase and developing detailed audit plans;
- determining audit objectives, identifying entity components significant to the overall audit objectives, defining the audit approach, determining criteria, and documenting how the audit covers the risks identified in the audit selection process;
- carrying out overviews and audit examinations;
- preparing the terms of reference, examination plan and draft reports;
- preparing briefing packages on the audit for the AAC, the President, and others, as well as working with Communications in the preparation of news releases, and report communication strategies;
- providing on-the-job training to auditors;
- supervising the work of auditors to ensure that PSC audit policies are met;
- supervising the preparation of audit files and substantiation binders, and documenting the review of files and binders prior to the issuance of the external draft report; and

- preparing the accountability report at the end of the audit to summarize the audit results achieved against the audit objectives and their contribution to the PSC's goals.

Auditors

Auditors carry out the responsibilities assigned to them by their managers and senior auditors. They are expected to support their managers and senior auditors by:

- carrying out audit examinations and gathering appropriate and sufficient audit evidence;
- preparing audit files and substantiation binders;
- providing input to the preparation of the terms of reference, examination plan and draft reports;
- being alert to possible non-compliance with audit policies and expected practices and bringing instances to the attention of their managers or senior auditors; and
- providing continuous feedback on PSC quality management for audits.

Vice-President, Audit Branch

The Vice-President, Audit Branch oversees all aspects of the audit. The duties include:

- giving advice and counsel to the audit directors general and to the audit team;
- rationalizing branch workload and resources;
- being involved in major decisions on relations with the entity being audited, the scope of the audit, access problems, complex and contentious issues, reporting strategies, reviewing and challenging the draft report, reviewing related files as necessary, clearing the report with senior entity officials, and recommending the report for approval by the President;
- seeking the advice and input of the quality reviewer assigned to the audit;
- providing assurance that any advice received from the quality reviewer has been dealt with in a mutually satisfactory manner;
- chairing the Audit Management Committee (AMC) (see Chapter 3 for details) and the AACs;
- providing assurance to the President on audit quality;
- ensuring that all PSC audit policies are followed; and
- approving the terms of reference, external draft and final draft for transmission to the audit entity.

Quality Reviewer

A quality reviewer, from the Audit Policies and Quality Assurance Directorate, Audit Branch, is assigned to each audit. The quality reviewer provides an additional element of independence and objectivity in two key risk areas: audit planning and reporting. To maintain independence, the quality reviewer provides advice but does not make decisions. The quality reviewer is a member of the AAC but is not a member 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;
- appropriateness of the audit objectives;
- suitability of the criteria used for evaluating the subject matter;

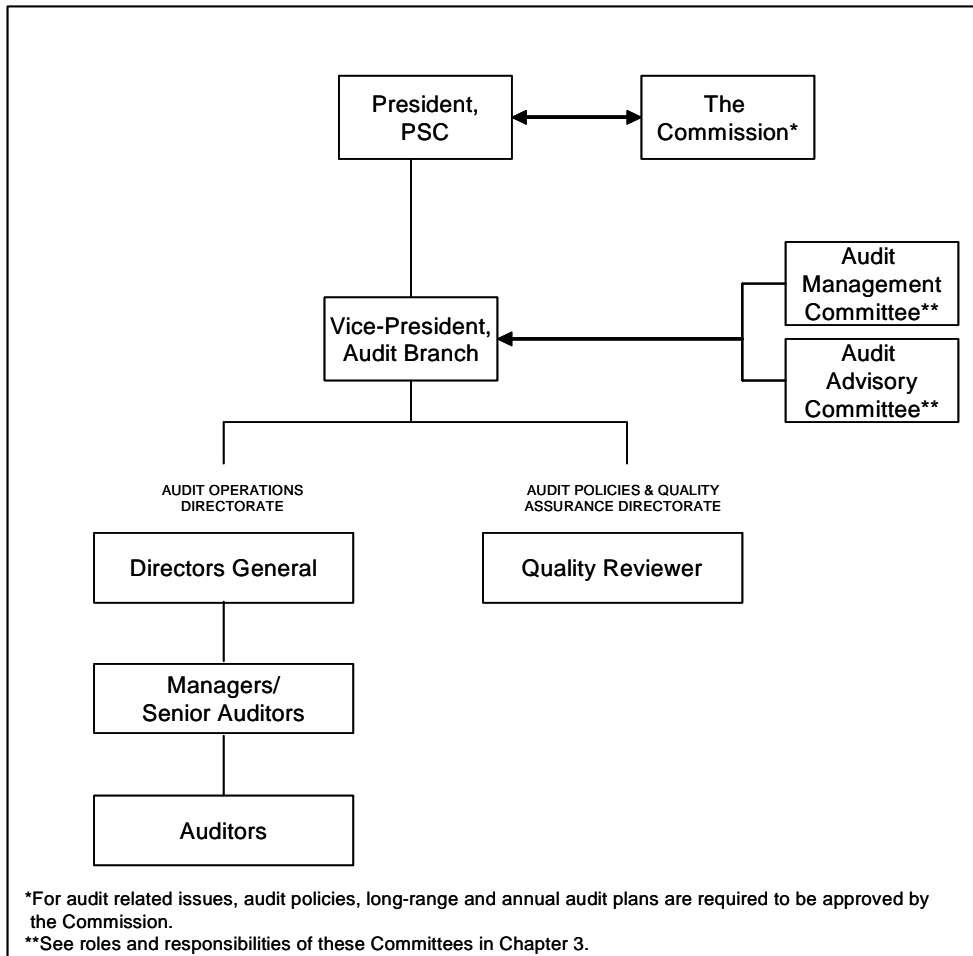
- suitability of the audit approach, particularly in high risk areas;
- appropriateness and sufficiency of evidence, particularly in relation to high-risk findings;
- handling of contentious issues that may arise during the audit;
- nature and extent of consultation by the audit team;
- significance of any disagreements between the entity being audited and the audit team relating to matters discussed in the audit report; and
- appropriateness of the conclusions and recommendations.

These responsibilities are carried out primarily through discussion with the audit team and through review of selected working papers. The quality reviewer is required to sign off on the final report for publication.

Audit Organizational Framework

Audits are carried out to enable the Commission to fulfil the PSC’s audit mandate. The Commission comprises the President and two other Commissioners. The Vice-President, Audit Branch has overall responsibility for all matters related to the audit function and reports directly to the President. The audit roles and responsibilities are illustrated in the following exhibit.

Exhibit 1.2 Audit Organizational Framework



2 Discharging the PSC's Audit Mandate

Planning Environment for PSC Audits

The PSC's primary focus is on safeguarding the integrity of the staffing process, including the protection of merit and non-partisanship, within the federal Public Service. The challenge is to determine what constitutes effective oversight in a new legislative environment and how best to achieve it. Auditing is a key activity in this situation. Selecting the right areas for audit is a complex and challenging exercise that requires sound knowledge of the pertinent issues and entities and the exercise of a high level of professional judgment. It is one of the most important steps in the process if the PSC is to meet the requirements of its audit mandate cost-effectively. If the selection of audits is not well done, the work that follows will have little chance of producing satisfactory results.

Audits beginning in 2005 will need to consider entities' transition from the current *PSEA*, which is more service-oriented, to the new *PSEA*, which is more oversight-focussed.

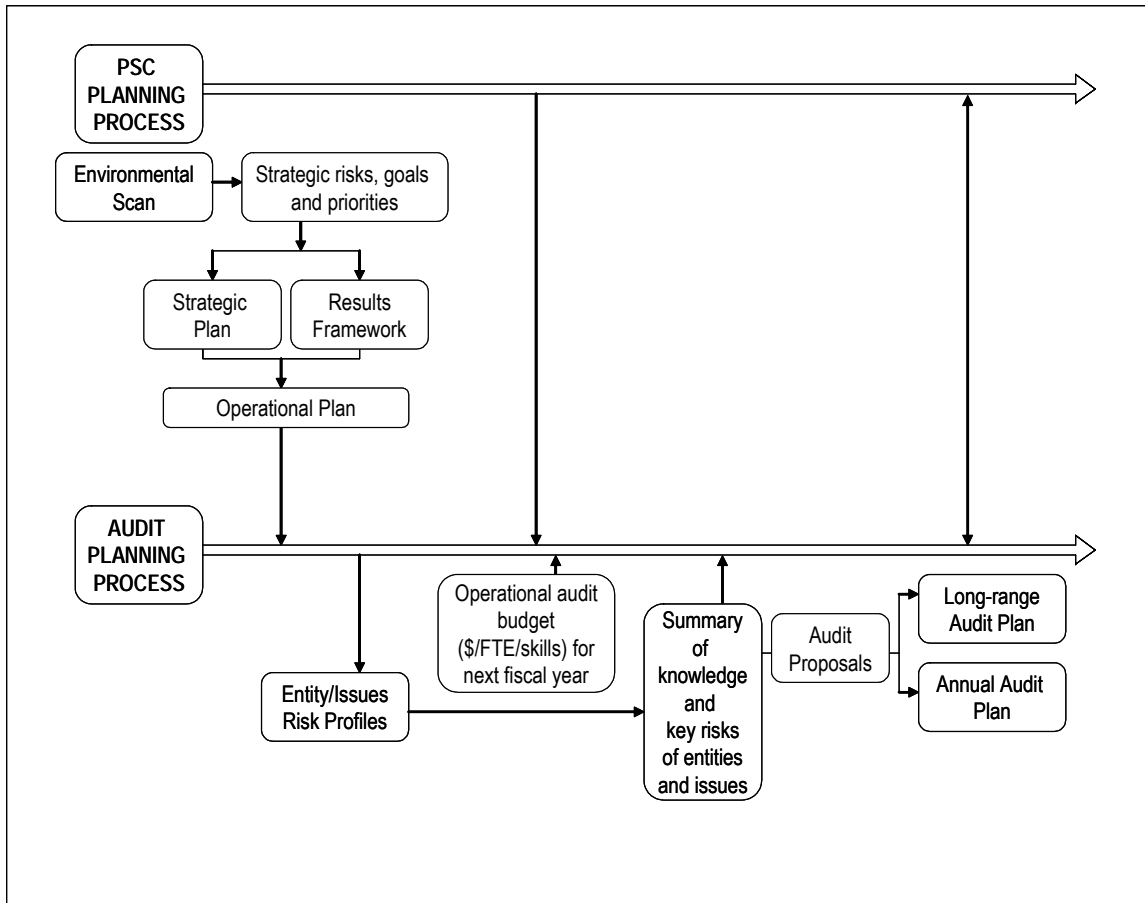
The audit planning function involves several layers of activity that interact in a complex manner before an audit begins. These include analyzing trends and risks, defining entities within the PSC's jurisdiction, and identifying broad-based issues and entities to be examined over varying periods of time.

The audit selection process is driven by three criteria: the relevance of proposed topics to the PSC's vision, mandate and strategic outcome; the significant risks associated with entities or issues; and auditability.

- Relevance addresses whether the entity or the issues being considered advance the PSC's priorities and fall within its mandate.
- Risk-based audit planning focusses on how well an entity is managing its staffing authorities and associated risks. The PSC audit selection process should be risk-based and results-focussed, and not simply concentrated on areas of suspected weaknesses. Audit teams should identify the important factors that may affect an entity's delegated staffing authorities or accountability reporting and how well the entity is responding to key challenges and opportunities. Significant risks include the notions of materiality, importance to the achievement of government priorities, and current parliamentary or public interest.
- 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; and
 - ◆ experience of the audit team.

Exhibit 2.1 illustrates the planning environment for PSC Audits. It shows that audit planning is part of a larger set of PSC planning activities.

Exhibit 2.1 Planning Environment for PSC Audits



Strategic Planning

The PSC has established an extensive process of consultation, analysis and planning to ensure that relevant matters of significant risk are addressed in a timely fashion and that the requirements of our mandate are met. The following is a very brief outline of the process.

The PSC's strategic planning cycle begins with an environmental scan each fall. The scan focusses on identifying risks and opportunities for the PSC in:

- implementing human resources management modernization and the PSC's responsibilities under the new *Public Service Modernization Act* and *PSEA*; and
- building the new PSC organization, including the oversight function and service delivery arrangements.

The environmental scan is an initial element of both the Treasury Board Secretariat's (TBS) Management Accountability Framework and the PSC's corporate-wide risk management framework. The scan identifies and assesses the critical factors that shape future PSC options and generates ideas on how best to respond to these challenges (i.e. risk mitigation strategies). The ultimate aim of the scan is to improve strategic decision making and priority setting; the scan is, therefore, a key input to the development of the Audit Branch's long-range and annual audit plans.

The environmental scan serves as a basis for identifying the strategic priorities, external risks and challenges that are reported in the Report on Plans and Priorities, which is tabled as part of the Estimates documents.

A strategic retreat is held each fall at which the President, Commissioners, Executive Management Committee (EMC), and other senior personnel meet to review the results of the environmental scanning exercise, as well as discuss two other draft strategic documents: the Strategic Plan and the Results Framework.

- **Strategic Plan**

This is the central strategic planning document covering the organization's vision, mandate, values and strategic priority areas. The strategic priority areas help the PSC plan and report on the results of its work. It also sets out a critical direction with which Audit Branch plans must be linked.

- **Results Framework**

The results framework is based on the PSC's Program Activity Architecture, and illustrates in a logical manner the organization's immediate, intermediate and ultimate outcomes, outputs and performance indicators, by activity and sub-activity. The Audit Branch long-range and annual audit plans and its performance indicators and outcomes contained in its subsequent performance report to the President must link with this framework.

The strategy documents are also used to plan activities related to researching and producing the PSC's Annual Report to Parliament on the health of the Public Service staffing system.

Operational Plan

The PSC receives funding for its objectives and reports to Parliament on results achieved in accordance with modern comptrollership principles.

The results of the strategic planning activities are used to provide direction to managers in the Operational Plan for the upcoming fiscal year. This direction includes the PSC's vision and strategic objectives and broad planning principles. It also provides broad corporate-level direction for the preparation of branch operational plans and resource requirements.

PSC Audit Planning

Audit planning is the process of deciding what to audit from a wide range of possible issues and entities, given the resources that are available for carrying out audits. The PSC's strategic planning outputs are used to assist in decision making.

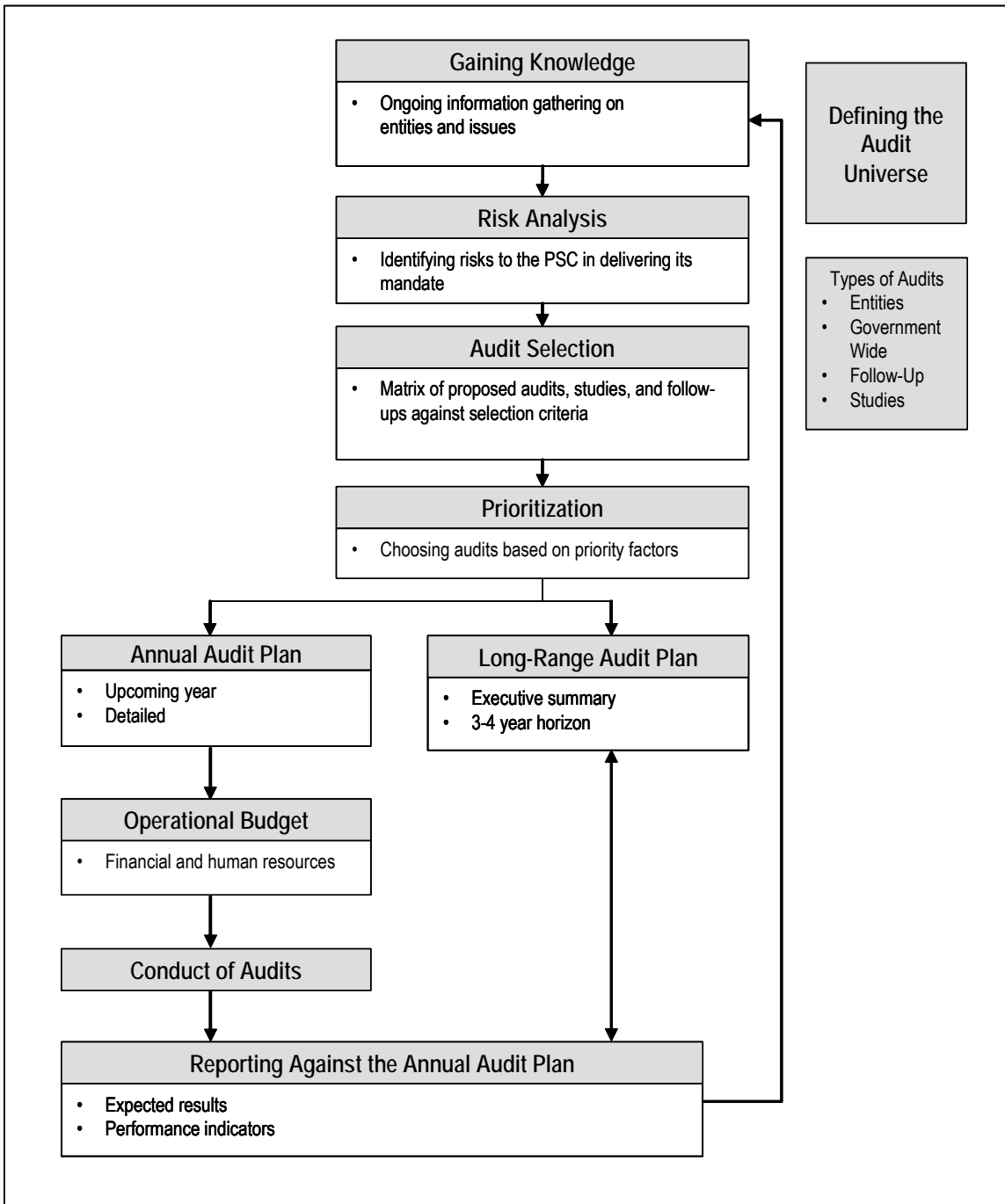
PSC audit planning is long-range and risk-based with three objectives. It:

- provides assurance to the President and Parliament that the PSC is fulfilling its audit mandate;
- ensures that significant entities and issues have both a current and multi-year planned audit coverage based on a high-level risk analysis; and
- ensures that major risks the PSC may face and ways to mitigate these risks are identified.

Audit planning is a primary responsibility of the Vice-President, Audit Branch, with inputs from other branches as well as external sources. The audit products and results of an effective audit planning process are key ingredients in the achievement of the PSC's audit mandate.

Exhibit 2.2 provides an overview of the PSC audit planning exercise.

Exhibit 2.2 PSC Audit Planning Overview



Gaining a Knowledge of the Audit Universe

The PSC’s audit universe includes all departments and agencies and issues within the PSC’s jurisdiction. It also includes the PSC itself, for both its non-delegated staffing responsibilities and its overall direction to departments and agencies on policies and procedures for safeguarding the integrity of the appointment process.

Throughout the year, the Audit Branch systematically updates its knowledge base for the many entities and issue areas within the audit universe. Audit team members obtain such knowledge from a number of sources, including:

- entity Web sites;
- attendance at conferences and seminars;
- reports such as departmental performance reports, reports on plans and priorities, annual reports and reports by the Auditor General, Treasury Board, the Canadian Human Rights Commission and the Public Service Staffing Tribunal;
- discussions with internal and external auditors;
- parliamentary committee hearings and reports; and
- various news sources.

Risk Analysis

The following information sources can help the Audit Branch identify risks to the PSC in delivering its mandate. They include:

- PSC reports on monitoring of Staffing Delegation Accountability Agreements (SDAA);
- staffing-related data, including analyses and studies by the PSC;
- information from the PSC Policy and Delegation groups;
- PSC investigations;
- information from individuals;
- information from the President and/or the Commission; and
- other audits and internal audit reports.

The Audit Branch maintains risk profiles on certain entities and issues and updates them continuously. These profiles provide essential input for long-range audit planning because they:

- emphasize the management of business risks, especially delegated staffing risks, that are critical to the success of the organization or functional area;
- constitute a consistent approach that can be consistently applied from team-to-team and year-to-year; and
- facilitate integration of the Audit Branch's broader-based risk profiles with the PSC's SDAA entity risk assessments.

Each entity or issue risk profile summary should include:

- SDAA assessments;
- key information about non-delegated staffing;
- high risks/impacts and mitigating controls for broad, key entity or issue areas;
- planned audits by others;
- unresolved staffing audit issues; and
- current level of parliamentary or public interest.

These risk profiles are used to determine areas of high risk to the PSC's mandate and provide significant input for the selection of audits.

An executive summary of the knowledge and key risks of the entities and issues is produced by the Audit Branch and presented to the AMC for comments and eventual inclusion in the audit prioritization process described later in this chapter.

Types of Audits

There are several types of audits to be considered for selection.

- **Entity audits** cover staffing activities and issues of one department or agency.
- **Government-wide audits** cover staffing activities and issues across several departments or agencies.
- **Follow-up audits** assess the corrective action taken to resolve previously reported issues. For more information see Chapter 7, Audit Follow-Up Phase.

In addition, the PSC conducts **studies**. They involve the gathering of information on an issue that needs clarification rather than an audit conclusion. They are normally more descriptive or exploratory in nature than audits. For more information on studies see Chapter 8, Study Policies.

Audit Selection

Knowledge of entities and issues, and risk analysis are the key inputs to audit selection. Several criteria must be considered when choosing which audits to include in the audit plan. Audits are proposed based on the following selection criteria:

- significance and importance of the issue;
- contribution to PSC's audit priorities;
- specific direction from the President and/or the Commission;
- findings from previous audits or studies;
- requests by stakeholders;
- urgency due to risk;
- size of the organization;
- need to follow up;
- availability of audit resources; and
- cycle or coverage desired.

Prioritization

One of the most challenging steps in building the annual and long-range audit plans is the prioritization process. This iterative selection process takes into consideration factors such as:

- coverage of issues or entities;
- significance;
- auditability;
- importance to achievement of government priorities;
- current parliamentary or public interest;
- directives from the President and/or the Commission;
- audit cycles;
- availability of audit personnel;
- urgency; and

- work volume and affordability.

The Audit Branch launches the prioritization process by creating an initial list of potential audits with tables summarizing these factors and providing planning options.

Long-Range and Annual Audit Plans

Once the prioritization decisions have been made, proposed audits and studies are consolidated by the Audit Branch in a Long-Range Audit Plan (three to four years) which, along with an Annual Audit Plan, is provided to the AMC for review and recommendation to the Commission for approval.

Long-Range Audit Plan

The Long-Range Audit Plan includes two key elements.

- An Executive Summary provides highlights of such matters as:
 - ◆ key risks identified and how the plan addresses them;
 - ◆ contribution to the PSC's strategic audit priorities;
 - ◆ gaps in audit coverage or cycles; and
 - ◆ resource budget.
- Schedules show annual costs and FTE budgets, key staff resources, rationale for audit or study selection, and the expected results or impacts of the audit.

Annual Audit Plan

An Annual Audit Plan covering the upcoming fiscal year accompanies the Long-Range Audit Plan. It includes all of the information contained in the Long-Range Audit Plan, but with more detail about risks, impacts, rationale, and scheduling and cost information by audit process phase, for use by the AMC.

Operational Audit Budget

As part of the PSC's corporate planning requirements, the Vice-President, Audit Branch produces an Operational Audit Budget for the financial and personnel resources necessary to carry out audits in the upcoming fiscal year, which must be approved by the EMC. This is different from product budgets that are approved by the President as part of the Long-Range Audit Plan and audit schedule. Individual audit budgets are reviewed and confirmed or revised at the end of the planning phase. The Vice-President, Audit Branch, manages any necessary reallocations and a summary report is made periodically to the AMC. Any changes in the schedule of proposed audits are to be approved by the Commission.

Plan Approval

The draft plans go through a two-stage review and recommendation process, first with the AMC and then the Commission.

Reporting Against the Annual Audit Plan

The Vice-President, Audit Branch, reports annually to the Commission on the results of the Annual Audit Plan. The report includes:

- highlights from the current year;
- performance results against target indicators;
- contributions to the PSC's strategic audit priorities; and
- concerns about such matters as resources and audit coverage.

Impact on PSC Priorities

The PSC carries out audits and studies that result in findings, conclusions, observations and recommendations made to departments. Departments implement the recommendations and the requisite changes to their staffing management framework and procedures. These changes improve staffing in departments and protect merit and non-partisanship, leading to highly competent people being appointed across the Public Service in a fair and timely manner.

Audit also has a second, less direct but equally important impact on departmental staffing. When various branches in the PSC implement the findings, conclusions and observations of audits and make needed changes to their own activities, non-delegated appointments are improved, recruitment is enhanced and better staffing delegation agreements are entered into with departments. As a result, staffing is improved across the Public Service.

Performance Results of Audits

The following performance results statements are expected to be achieved through effective audits:

- departments have implemented PSC audit recommendations; and
- the PSC has implemented changes to delegated staffing authorities, other improvements to the policy framework, or other changes to PSC program activities as a result of the findings, conclusions and observations of audits.

Two key performance indicators that correspond to the above expected performance results for tracking and reporting are:

- percent of recommendations implemented; and
- percent of audit observations for change implemented by PSC.

3 Conducting PSC Audits

Audit Conduct Policies

The audit team should:

- **exercise due care and professional judgment;**
- **comprise individuals who have an objective state of mind and who are independent;**
- **have a collective knowledge of the subject matter and the auditing proficiency necessary to fulfil the requirements of the audit;**
- **ensure proper supervision of all of its members;**
- **seek from managers of the entity being audited their views about critical elements of the audit; and**
- **obtain appropriate and sufficient consultation and advice throughout the audit.**

Due Care and Professional Judgment

Due care requires auditors to carry out their audit work diligently, conscientiously and with rigour, in accordance with professional standards and PSC audit policies. Auditors must exercise sound judgment when deciding what and when to audit, the audit objectives, the audit criteria, the basis for assessing findings against the criteria, the audit approach and methodology, the extent of audit, the issues to be reported and the overall audit conclusions. Due care also requires that similar vigilance be exercised by those supervising the audit work and providing review and challenge on the major audit decisions.

Objectivity and Independence

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

Independence requires that the PSC's Audit Branch 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.

The audit teams are encouraged to develop and maintain good relations with officials and staff in the audited organizations. When reporting deficiencies, the audit policies require the auditor to recommend corrective actions in a way that does not impair the independence of the Audit Branch.

Competence of the Audit Team

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

The PSC has an obligation to Parliament, the audited organizations, and other stakeholders to ensure that competent personnel conduct audits. This requires the audit team and contractors to possess collectively the knowledge, disciplines, skills and experience to carry out the audit effectively.

The audit team should have:

- knowledge of PSC 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; and
- knowledge of the government environment, the entity being audited, and the various acts, regulations, and policies related to the subject matter of the audit.

At an early stage in the planning process, the audit director general should determine whether specialized or technical skills not available on the audit team are required to complete the audit. Early identification allows the lead time necessary to acquire suitable staff from within the Audit Branch or to engage personnel under contract.

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

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

Supervision

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 those with supervisory responsibilities to:

- 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 PSC audit policies 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.

Working with Entity Management

Good relations between audit staff and the management of an entity being audited are built on the basis of respect and trust. Where this type of relationship exists, both entity management and the PSC 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 auditor's independence or the quality of the audit report.

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

- planning the audit, to obtain views on the critical success factors for the staffing 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 scope, the objectives 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 way to correct the problem;
- obtaining agreement on the facts, observations, issues and recommendations contained in the audit report, or to point out any disagreements; and
- finalizing the draft audit report, to obtain the deputy head's comments and planned departmental actions to correct any deficiencies, and to identify any points of disagreement with the report.

Deputy heads and senior managers in entities have an important role to play during the course of PSC audits. It is important that they have a clear understanding of what this role involves. For this purpose, the PSC developed a document "PSC Audits: Information for Deputy Heads and Senior Managers" which is included in Appendix B of this Manual. It serves as quick reference for entity management, summarizing the involvement that deputy heads and senior managers in departments and agencies can expect to have in audits conducted by the PSC. It also helps the audit team establish a working relationship with entity management at the initiation of the audit.

Consultation and Advice

PSC audits are often complex undertakings that require a wide range of skills, expertise and experience if they are 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 AAC, a quality reviewer assigned to a particular audit, and the support of internal and external specialists, ensures that appropriate review, challenge, consultation and advice are available to the audit teams. Audit teams should consult with a quality reviewer, an AAC and other specialists as appropriate.

The following is an outline of the responsibilities of the key advisory bodies.

Audit Advisory Committee (AAC)

An AAC provides review, challenge and advice to the audit team at the critical control points of an audit. Its role in the PSC Quality Management System is illustrated in Appendix C.

An AAC should be established for government-wide audits, audits that are considered to be high risk, and audits of large entities. The AAC, chaired by the Vice-President, Audit Branch, includes members from both inside and outside the Audit Branch. The quality reviewer should be a member. The President may choose to be a member of the AAC, especially for the more high-risk audits. Ideally, the AAC should have four to five members. They are selected on the basis of their skills, insights, relevant knowledge and experience. Outside advisors are recognized as leaders in their fields of expertise. AAC members from outside the Audit Branch should acknowledge in writing that, as members, they will comply with the PSC Audit Code of Professional Conduct.

The Vice-President, Audit Branch, is responsible for determining if an AAC is needed, the members and make-up of the AAC, and the timing and agenda for each AAC meeting. Individual committee members with expert knowledge can also be used as special advisors to the audit team.

The AAC is designed primarily to provide a forum where the audit team can seek advice. The team presents information to the AAC at the critical decision points in the planning, examination and reporting phases of the audit (a minimum of three times during the audit). The audit team consults with the AAC members on aspects of the audit, including:

- planned coverage, matters of potential significance and audit approach, including aspects such as the:
 - ◆ preliminary audit objectives, background and rationale for the audit, initial audit issues, and relevance of the planned audit to the PSC's audit mandate;
 - ◆ scope, general approach and criteria; and
 - ◆ the avenues for quantification being pursued and whether they will be achieved;
- the significance of issues, proposed observations, recommendations, conclusions and reporting strategy;
- whether the report expresses the right message, the issues are significant, and the presentation tone is fair and reasonable.

The minutes of the AAC meetings, the records of decisions, and required follow-up action related to a particular audit are considered to be audit evidence and maintained as part of the working papers of the audit.

Audit Management Committee (AMC)

The AMC manages the PSC audit process on behalf of the President and the Commission. The AMC oversees the audit planning and management processes as well as matters related to the production and communication of all audits and studies to ensure that the quality management system (see Appendix C) has been applied, as spelled out in the *PSC Audit Manual*. It does this by:

- reviewing and recommending to the Commission for approval:
 - ◆ the Long-Range Audit Plan; and
 - ◆ the Annual Audit Plan;
- reviewing, within a project management system, information related to:
 - ◆ audit proposals from Audit Branch;
 - ◆ audits and study project costs and timing information against milestones and budgets, with variance explanations;
 - ◆ the Summary Examination Plan; and
 - ◆ any proposed changes to the latest Long-Range Audit Plan or Annual Audit Plan;
- reviewing and recommending to the President for approval all audit reports and studies, including the PSC Audit Report, which is released annually (see Chapter 6 and Appendix D); and
- ensuring that all messages contained in audit reports are consistent with previous positions and the risks and special interests associated with them.

The AMC is chaired by the Vice-President, Audit Branch, and the membership includes the Directors General of the Audit Branch as well as the Director General, Communications and Outreach Directorate, Corporate Management Branch.

The AMC Chair provides update reports on a regular basis to the President and the Commission. It is expected that AMC will meet as required.

Its records of decisions pertaining to a particular audit will be included in the audit's control file and will be followed up through a tracking system.

Internal and External Specialists

The audit team consults with specialists who have state-of-the-art knowledge or skills concerning specific subject matters related to the audit. These specialists can be drawn from the PSC or contracted to assist and advise the audit team or conduct audit work in their areas of expertise. They are required to follow the PSC Audit Code of Professional Conduct when they are involved in audits.

Legal Services

The audit team seeks advice from PSC Legal Services on:

- potential legal issues arising during the audit;
- possible recommendations to change legislation;
- engagement of outside legal counsel;
- the audit mandate; and

- third-party references in the audit report.

Quality Reviewer

The quality reviewer is responsible for providing assurance to the Vice-President, Audit Branch that audits are performed in accordance with the PSC audit policies and process as outlined in this Manual. The role of the quality reviewer is described in more detail in Chapter 1 under Audit Branch Roles and Responsibilities.

The quality reviewer provides feedback on the:

- risks associated with the audit, how best to deal with those risks, and the adequacy of consultations in relation to those risks;
- terms of reference and the examination plan, particularly in relation to the adequacy of the proposed level of work, methodology, resources and independence of the team;
- appropriateness and sufficiency of evidence related to high-risk findings; and
- compliance of the report with the PSC audit reporting policies.

The review is documented to outline what review work was done and its results.

The audit director general is responsible for ensuring that the quality reviewer is consulted on a timely basis and receives the information necessary to perform the review.

Confidentiality and Security

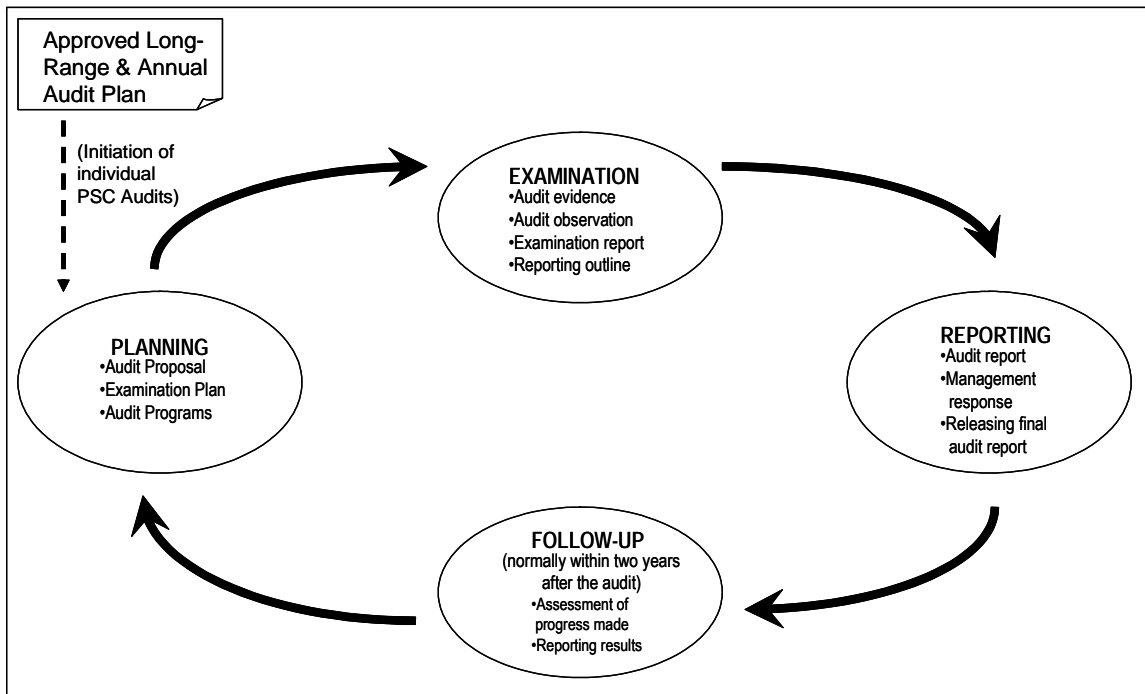
The PSC works to the highest standards of professionalism and integrity and seeks to develop a relationship of respect and trust with the managers and staff of the entities it audits. An important ingredient of those standards and principles is ensuring the security and confidentiality of both entity and internal information.

The PSC Audit Code of Professional Conduct requires all Audit Branch employees and those PSC employees and contractors involved in PSC audits to observe the confidentiality and security of internal documentation and communications. They should conduct themselves according to PSC policies, and should respect the confidentiality of information acquired from audit entities. In addition, the audit team must ensure the security and confidentiality of all files, whether they are located in the offices of the PSC or on the premises of the entity being audited.

PSC Audit Process

PSC audits are conducted in four phases as illustrated below.

Exhibit 3.1 PSC Audit Process



- **Audit Planning Phase**
Audit planning enables the audit team to develop an appropriate level of knowledge concerning the entity, the appointment activity under examination and the issues facing them. This knowledge enables the audit team to develop an examination plan that will provide a basis for the orderly, efficient and cost-effective conduct of the audit.
- **Audit Examination Phase**
The purpose of the examination phase is to gather appropriate and sufficient evidence to conclude against objectives and to support all statements made in the audit report.
- **Audit Reporting Phase**
The purpose of the reporting phase is to communicate the audit's findings, conclusions and recommendations clearly, precisely, persuasively and effectively.
- **Audit Follow-Up Phase** (normally within two years after audit)
Follow-up helps the PSC and the deputy head to know the extent to which corrective action has taken place to resolve previously reported issues.

A quality chain is built into the PSC audit process by means of challenge, review, consultation and advice, and project management.

Quality management systems are based on a number of principles. The key ones are as follows.

- 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 result in no control.
- The control process must be efficient.
- Controls are built in a cascade, with an appropriate mix of external, corporate, branch, team and individual controls.
- Controls are results-focussed.
- Auditors participate in the continuous evolution of the control framework.

The components of the PSC quality management system are mentioned throughout the various chapters of this Manual and summarized in Appendices C and D.

The audit policies and detailed processes related to each of these phases are explained in chapters 4 to 7.

4 Audit Planning Phase

Individual audits should be adequately planned to meet the audit objectives in an effective and efficient manner.

Planning the audit

Every facet of a Public Service Commission (PSC) audit requires professional judgment and individual initiative. After an audit has been selected for implementation, decisions need to be made about the following:

- what and how much to audit;
- the audit objectives;
- what audit approaches, methodology and technology to employ to assess performance related to the integrity of the appointment process; and
- what skills, disciplines and experience to assign to the audit.

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

The audit planning phase involves research of the subject of the audit and of the entity being audited and consultation with the Report Management Committee (RMC), the Independent Audit Advisory Committee (IAAC) and the President, as well as communication at various times with the management of the entity.

Initial letter

Audit teams send a letter advising the entity's Deputy Head, Head of Human Resources (HR) and Chief Audit Executive (CAE) of the PSC's intent to conduct an audit in that entity, per the audit-planning cycle of the Audit, Evaluation and Studies Branch (AESB).

Overview phase

This phase is also referred to as 'desk review,' that is, all research that can be conducted ahead of the engagement letter, without requiring access to the auditee's staff or files. This research can be done by collecting information that is available publicly or within

the PSC. The overview phase process will feed the next audit planning phase, called the survey phase.

Audit proposal

During the planning phase, the audit team prepares an audit proposal for approval by the Vice-President of AESB at the RMC. The audit team documents the preliminary audit objective(s) and scope per the annual audit plan and identifies new priorities, if applicable (in the case of audits of horizontal issues, audit teams may include more detailed scoping information, including the potential entities involved, the relevance of the issue to the PSC's mandate and the potential significance to parliamentarians).

Audit profile

The audit team acquires a sound knowledge and understanding of the subject of the audit (entity staffing activities or government-wide staffing function), without carrying out detailed verification prior to commencing detailed planning of the audit. Irrespective of the size and nature of the subject, it is important for the audit team to have an overview of the entity to understand the “big picture.” Forming audit conclusions or reporting weaknesses without this overview may result in unproductive audit work or misleading findings. A wide variety of procedures and techniques are used to gather the necessary information, including a review of the following:

- relevant legislative authorities, policies and directives;
- organizational arrangements, including the make-up of regional and district offices;
- the environment in which the entity operates;
- the environment in which staffing activities have taken place;
- key personnel and changes to key personnel;
- levels and types of staffing activity ;
- accountability arrangements, including the delegation of staffing;
- major control systems that have an impact on staffing and human resources management as a whole;
- the quality and reliability of major human resources data systems;
- major staffing activities, risks and issues that the entity is facing;
- leading indicators, Staffing Management and Accountability Framework, Appointment Delegation and Accountability Instrument, etc.;
- risk profiles of the entity maintained by AESB;
- information, deficiencies or known weaknesses relevant to the subject of the audit obtained from past audits and reviews, including PSC audits, internal audits and evaluations by the entity and audits by the Office of the Auditor General, as well as other reports;
- organizational performance reports, reports on plans and priorities, annual reports, strategic plans, environmental scans and human resources management plans;
- the entity's Internet site;
- management and accountability reports;
- major human resources–related systems and control procedures;
- risks that the entity is facing and their impact on audit issues;

- consultations with advisors and other organizations to identify relevant best practices and opportunities for improvement;
- previous PSC audits and studies, as well as audits and studies conducted by others; and
- staffing data and other information and trends compiled by the PSC and other organizations.

Engagement letter

At this stage, audit teams send a letter advising the entity's Deputy Head, Head of HR and CAE that a PSC audit will be performed in that entity and that audit planning is about to begin. This letter will ask the Deputy Head to designate a person to serve as the principal contact with the PSC throughout the audit and will serve as the formal beginning of audit work with the entity

Launch meeting

This serves as the audit initiation meeting, to familiarize the entity's management with the audit. At this meeting, the audit team seeks management's views on the critical success factors for the staffing 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. Audit teams can request documents before or at this meeting.

Survey phase

This phase is also referred to as 'client review,' that is, entity information collected subsequent to the engagement letter. This includes interviews, data review and other consultations as well as formal requests for documentation, internal guidelines, policies, etc. The survey phase is pivotal, as it may indicate areas of potential risk, weaknesses or any opportunities for improvement. The key output of this phase is an audit survey report, which documents the research and sources of information collected.

Survey plan

The audit team proposes a matrix for the focus of the survey work, resources and efforts.

The proposed plan will address the following:

- Known areas of audit and/or business risk
- Efficient use of audit resources (budget, hours, travel)
- What methods of data collection will be employed and why they are the most effective:
 - Interviews and focus groups
 - Who will be interviewed
 - What type of survey questions will be asked, and why
 - Locations/branches/geographic areas
 - Document review

- What documents will be obtained/requested
- File walk-throughs
 - Rationale for, and number of, file walk-throughs
 - How these files will be selected
 - When and where files will be reviewed
- Relationship to the PSC's mandate

Audit survey report

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 risks of making erroneous observations, faulty conclusions or inappropriate recommendations. An important tool used in the audit survey report is risk assessment. Risk is defined as the probability that an event or action may have an adverse effect on the intended outcome.

For the PSC, it is the expression of the likelihood and impact of an event or action related to staffing that has the potential to be a threat to the integrity of the appointment process. Risks can also be threats that might have an impact on the achievement of an entity's objectives. In a risk assessment, the audit team should ask questions such as the following:

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

Examination planning phase

Based on the approved audit survey report, the audit team develops the examination plan package, which is the key output of this phase. This provides the terms of reference in which AESB formally shares its criteria and approach with the entity.

In addition, the examination plan itself contains the audit programs, sampling plan (if required) and audit calendar and provides the framework within which audit results and entity performance impacts can be determined. Significant elements of this plan, such as the identification of the audit objective(s), audit scope, methodology (including audit criteria) and audit tests to be conducted, provide the structure and approach required to complete the audit project.

Audit terms of reference

The audit team prepares the terms of reference using the audit objectives, scope, criteria, approach and timelines from the approved audit survey report. The terms of reference allow the auditors and the entity's management to have a clear understanding of what to expect from the audit.

The audit team presents the terms of reference to the entity's management and obtains their views, including their comments concerning the scope, objectives and criteria, preferably in writing. The entity's management does not approve the terms of reference.

Developing the examination plan

The key output of the examination planning phase is the examination plan. This document details how the audit evidence will be gathered during the audit examination phase to meet the objectives of the audit in the most cost-effective manner.

The examination plan provides the following:

- a guide for conducting, communicating and co-ordinating the work of the examination phase;
- a framework for assigning work and assessing and establishing budgets for the remainder of the audit;
- a basis for supervising the work; and
- a means of transferring knowledge to less experienced staff.

The examination plan should contain the following:

- the audit objectives;
- the audit scope, major considerations and rationale for the scoping decisions, reasons for any limitations on the scope and the way in which the audit addresses any risks identified in the audit selection phase;
- the audit criteria and their sources;
- a description of the audit approach and methodology (that is, the 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 results;
- if required, a sampling plan should be attached, explaining the population, sample size, sampling methodology and conclusion that the audit team is expected to reach, given the sample;
- identification of audit staff, including regional and functional staff, and any internal or external specialists required for their special knowledge;
- an outline of the knowledge, skills and experience of the team members assigned to the audit;
- the timing of the audit and milestones/control points; and
- the estimated cost of the audit in terms of hours, contracts, travel and translation, including, where necessary, an assessment from the initial approved audit budget, which should be reflected in an audit calendar.

Before starting field work, the audit team should prepare audit programs that set out the detailed audit procedures for carrying out the examination. Well-designed audit programs are useful tools for ensuring a systematic and disciplined approach to examination and for documenting the audit work conducted by the audit team.

Audit objectives

An audit should have clear objectives about which conclusions can be made.

Audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of appointments and related activities. In general terms, the objectives of PSC audits are compatible with the PSC's strategic plan.

Audit objectives are to be carefully considered and clearly stated. As a general rule, there should be a limited number of clear objectives for an audit. They must be defined in a way that will allow the audit team to reach conclusions about each objective. As audit efforts will be directed toward answering the questions raised in the objectives, they should be defined as precisely as possible to avoid unnecessary and expensive audit work. Any changes to the audit objectives, as well as the major considerations and rationale for such changes, should be brought to the attention of the Vice-President of AESB, the RMC and the quality reviewer.

The audit work also provides valuable and necessary information to Parliament. Non-audit objectives, such as providing an overview of a process or subject area, for which a conclusion cannot be reached and is not expected should be separated from audit objectives.

Audit scope

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

During the early planning stages, the appointment 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 relatively few matters of significance pertaining to the audit objective, that can be audited with the resources available and that are critical to the achievement of the intended results of the activity being audited. There are three underlying principles in establishing the scope of the audit:

- relevance to the PSC's mandate;
- matters of significance; and
- auditability.

Relevance to the Public Service Commission's mandate

Both the former Public Service Employment Act (PSEA) and the new PSEA give the Commission the authority to conduct audits on any matter within its jurisdiction. The mandate of the PSC and the interests of parliamentarians are key factors in assessing the relevance of matters to audit.

Matters of significance

Identifying matters of significance for audit involves answering questions such as the following:

- Does the subject have an important impact on the appointment process?
- Is it an area of high risk?
- Is it material?
- Does the audit have the potential to improve the performance and accountability of the appointment process?
- Is it an issue of visibility or of current concern or interest to parliamentarians and Canadians?

One of the results of the scoping exercise is the identification of matters of potential significance or issues for in-depth audit. Typically, the matters most critical to the success of the staffing activity being audited, or those that present the greatest risks, are chosen for detailed audit. Careful attention by the auditor is needed to identify and focus the audit on the critical processes related to staffing.

Auditability

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

- the audit team does not have or cannot acquire the expertise;
- the area is undergoing significant and fundamental change; or
- suitable criteria are not available to assess performance.

Scope statement

The scope statement should describe the staffing programs/functions of the entity's activities that are the subject of the audit, including the regional areas of the entity being audited as well as the time period covered by the audit. It should also indicate any issues and/or areas that have been excluded from the scope of the audit.

Audit criteria

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

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

Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices and the efficiency and cost-effectiveness of staffing activities can be evaluated and assessed. They are to be relevant, reliable, neutral, understandable and complete. The aggregate of the findings against criteria, along with professional judgment, allows the audit team to form a conclusion about each audit objective.

The sources of the criteria determine the amount of effort needed to assure their suitability. Sources of criteria include the following:

- the PSEA, other relevant acts and corresponding regulations;
- policies, standards and control frameworks developed by central agencies;
- entity reports on plans and priorities and performance reports;
- generally recognized good practices;
- policies and standards developed by the audited entity;
- criteria used in similar audits;
- standards and practices of other organizations carrying out similar activities; and
- prior PSC audits.

The audit team can generally develop criteria based on laws and/or regulations. In these circumstances, the auditor needs only to ensure that the criteria are related to the audit objective.

Primary sources of criteria for PSC audits are the controls, standards, measures, result commitments and targets adopted by the entity's management or imposed by Parliament or central agencies. Where the entity has adopted meaningful and specific measures for assessing its own performance, the auditor should carry out a review of those measures relevant to the audit to ensure that they are reasonable and complete. Where the entity's measures are found to be suitable, they can be adopted as the audit criteria.

The audit director general should do the following:

- 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;
- obtain their written comments, if possible, on the suitability of the criteria and the audit team's understanding of management responsibility in the context of the audit approach; and
- consult with the Vice-President of AESB and the IAAC if there is disagreement with management about any of these items.

Under no circumstances is the audit to be carried out using criteria that would result in biased or misleading audit results.

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

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

Audit approach

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 in the most cost-effective way. This should be documented, providing a description of the planned audit approach and methodology and the nature, extent and timing of evidence to be collected and analyzed, taking into account the identified risks and tests for reliance on controls, including the opportunity to quantify results.

The typical PSC audit will audit the entity control systems that affect staffing to determine whether the entity has adequate control systems to provide reasonable assurance that intended staffing results are achieved. 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, this provides a strong indication that the results will be satisfactory.

Normally, only high-risk components of the system would be reviewed in depth. Controls are chosen 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. This approach provides a solid foundation for making recommendations to improve the systems and practices and for identifying unnecessary controls.

In auditing the entity's control systems, 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.

Sampling may be the primary approach for gathering evidence. Direct testing is particularly useful in cases where the auditor wants to assess the extent of some event or characteristic in the population or to quantify the effects of a deficiency. In cases where the auditor wishes to project the results of the test 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.

After the audit tests, procedures and methodology have been designed, the audit team should proceed to the examination phase to gather appropriate and sufficient evidence to support the audit report.

5 Audit Examination Phase

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

Audit Evidence

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.

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 whether it is sufficient to support observations, make conclusions with respect to audit objectives, and make useful recommendations. If not, additional evidence may be needed.

The evidence-gathering process involves:

- designing the audit procedures or tests (part of the audit examination plan);
- carrying out the audit procedures or tests to gather evidence;
- analyzing evidence and drawing conclusions which may also involve evaluating performance against the audit criteria; and
- making decisions about whether additional information is required and can be obtained, or whether appropriate and sufficient evidence exists.

It is not unusual for audits to be redesigned during the examination phase 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 audit assignment, and must take appropriate corrective action. Audit observations, conclusions and recommendations included in the report must be able to withstand critical examination. Therefore, they must be supported by appropriate and sufficient evidence.

In determining whether evidence of appropriate quality and sufficient quantity has been gathered, the auditors need to be satisfied that, in their professional judgment, there is a low level of risk of making erroneous observations, faulty conclusions, or inappropriate recommendations.

By definition, and consistent with the auditing standards established by the Canadian Institute of Chartered Accountants, audits provide a high level of assurance. The auditors provide a high, though not absolute, level of assurance in gathering evidence by designing inspection, enquiry, confirmation, computation, and analysis and discussion procedures so that the risk of an inappropriate conclusion is reduced to a low level.

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

Appropriate Evidence

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. If information is not relevant, it cannot be evidence.

Reliability concerns the likelihood of coming up with the same answers either when the audit test is repeated or when information is obtained from other sources. A measurement or evidence-gathering process is considered more reliable if repeated measures or performance 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 or information. An auditor is not trained as or expected to be an expert in authentication. However, the auditor has to consider the validity of the information to be used as audit evidence (for example, photocopies, facsimiles, filmed, digitalized, scanned, or other electronically produced documents, including consideration of controls over their preparation, where relevant).

The following rules should be considered 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 different 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

The concepts of sufficient (quantity) and appropriate (quality) 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 judgments include the:

- quality of the evidence—its relevance, reliability, and validity;
- level of significance of the observation or conclusion—in general, the higher the level of significance, the higher the standard that evidence will have to meet;
- risk involved in making an incorrect observation or reaching an invalid conclusion; and
- cost of obtaining additional evidence relative to likely benefits in terms of supporting observations and conclusions.

It is often the case in audits that important “facts” are not singular but instead are made up of a collection of interrelated facts. In the assessment of the quality and quantity of evidence, the auditor has to consider that the strength of the sum of the facts may be as important as the strength of the individual facts.

Auditors frequently face the challenge of providing sufficient and appropriate evidence that something does not exist. 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 to corroborate observations, and to document the approach taken to look for evidence.

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

A limitation exists on the scope of an audit that, despite best efforts, is unable to meet the standard of obtaining appropriate and sufficient evidence. The available evidence and its limitations could be reported, but observations and conclusions would not be drawn. If the PSC decides to report the matter, it would be reported as a qualification to the conclusion, indicating that a lack of evidence prevented a certain part of subject matter from being evaluated. When, in the judgment of the PSC, a qualification would not be sufficient due to the significance and extent of the limitation in the evidence, the audit report would express a denial of the conclusion. A denial states that a conclusion cannot be made on the subject matter.

Sources and Types of Audit Evidence

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

Information gathered by the auditors (primary evidence). Auditors can gather information themselves using interviews, surveys, and direct inspection or observation. In these cases the auditors have control over the methods employed and the quality of the information gathered. However, the auditors must have the necessary skills and experience to apply the methods competently.

Information gathered by the audited entity (secondary evidence). Auditors can use information gathered by the audited entity, including the reports of internal audit and program evaluation groups, as well as information found in the audited entity's 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 entity's internal controls over the quality of information. Auditors can reduce tests of information quality if they find that the internal controls are effective.

Information gathered by third parties (secondary evidence). Audit evidence can also include information gathered by third parties. In some cases others may have audited information, or the auditors may be able to audit the information themselves. In some cases, third party information cannot be audited, but its quality is known (for example, data from Statistics Canada). The extent to which third-party evidence can be used as evidence will depend on the extent to which its quality can be established.

Forms of Evidence

Audit evidence can take a variety of forms.

- **Physical evidence**
Physical evidence is typically obtained by the auditor's direct inspection or observations, and supported by field notes, photographs or videotapes wherever possible. 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. The observer should disturb the setting as little as possible.
- **Testimonial evidence**
Testimonial evidence includes oral or written statements obtained in response to the auditor's inquiries. Examples include interviews with entity staff and surveys (either by telephone or mail) of clients of the service. Inquiry has always been one of the significant audit techniques. Careful preparation and briefing beforehand, and debriefing and documentation afterwards, improve the effectiveness of an interview. Wherever possible, evidence from individual interviews should be corroborated with evidence from other people or other sources.
- **Documentary evidence**
Documentary evidence is that obtained from such sources as files, performance reports, databases, minutes of meetings, organization charts and correspondence.

Documentary evidence can be obtained from the audited entity or from third-party sources, and includes both electronic and hard copy information.

- **Analytical evidence**

The auditor produces analytical evidence by manipulating other types of evidence using analytical techniques such as computations, comparisons, and content analysis of qualitative data.

Although evidence analysis follows evidence-gathering in chronological terms, the audit team members need to know what specific analytical techniques they will use before they start to design the strategy for capturing evidence. Otherwise, the auditors may find that the evidence collected is not susceptible to the appropriate forms of analysis.

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

Quantification is an important means of demonstrating the significance of an audit's observations and recommendations. A focus on quantification should be built in at the planning phase.

Relying on the Work of Others

In the interest of audit efficiency, auditors should rely on the relevant work of internal audit and evaluation, internal and external experts, and specialists whenever possible. When the work of others is the main or sole evidentiary support for particular observations, conclusions and recommendations, auditors should evaluate and corroborate the specific work on which they intend to rely. The purpose will be to determine whether the work meets the PSC's audit policies with respect to appropriate and sufficient evidence, and that an adequate basis for reliance exists.

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

Where auditors use the work of others, 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 PSC audit report, the source of findings is clearly indicated.

Documentation of Evidence

One of the PSC's audit conduct policies requires the audit team to maintain appropriate documentation and files. Audit working papers and files are used to document key audit

decisions and work. The documentation of evidence is a vital aspect of auditing, and it should be completed before the Transmission Draft is issued.

Good documentation of evidence helps ensure that:

- an adequate and defensible basis exists for the audit observations, conclusions and recommendations;
- the observations, conclusions and recommendations can be explained in response to internal or external enquires;
- an effective link exists between successive audits; and
- an appropriate basis exists for quality control in carrying out an audit and for third-party reviews.

Auditors need to exercise professional judgment in documenting evidence. A guiding principle is that the audit files and working papers must include either the evidence or the description of the evidence examined, sufficient to allow the audit managers and others who examine all of the evidence 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 ready access to the evidence.

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 audit entity's records, it may be enough to note that a particular document was examined and to provide the information required to identify and locate that document.

Complete, indexed and cross-referenced working papers are critically important when reviewing findings with management, briefing the President, providing support at parliamentary committee hearings, answering subsequent queries from the audited entity and others, and planning future assignments. Clear indexing and cross-referencing ensures the evidence is readily accessible.

The audit team should prepare substantiation binders that contain the audit evidence most pertinent to the audit report content. These binders are prepared as a means of providing assurance as to the quality of the audit. Gathering together the evidence specific to a report for easy access also allows the PSC to respond to internal or external enquiries (e.g. a hearing by the Government Operations and Estimates Committee or other standing committees).

The goal of having a substantiation binder is to ensure observations, conclusions and recommendations flow logically from the evidence available 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.

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 conclusions made by the auditor. For example, it would include a 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.

Auditors use their professional judgment in deciding what to include in the substantiation binder to support the report, ensuring that appropriate and sufficient evidence for the more contentious, sensitive and highly visible issues is included. For other matters, such as the background information on an 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.

Before issuing the external draft, the audit team gathers together the documentation to enable the audit director general 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 report.

Audit Observations

Audits should objectively evaluate evidence against the criteria to develop observations and conclusions.

The audit team gathers evidence to support a description of a staffing activity under review and make an assessment of the actual performance of that activity against the audit criteria. Where the auditor finds that performance does not meet the criteria, further examination 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 performance improvements.

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

Gathering additional evidence and/or discussing the matter with management of the entity being audited 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 the results of the staffing activity. Wherever possible, the effect of the problem should be quantified or otherwise identified to illustrate the “so what” in the audit report;
- identify the cause of the deficiency to increase assurance that recommendations will be appropriate;
- determine whether the problem can be fixed by the audit entity, or whether it results from circumstances beyond its control;
- gather further evidence (for example, cases, statistics, etc.) to illustrate the nature and importance of the issue, where appropriate;

- determine who is affected by the issue—for example, other units within the organization, central agencies, and third parties; and
- determine management's awareness of the issue. If management of the audited entity 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.

The comparison of evidence against criteria, and further examination 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. Observations may declare 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 to assess them against the corresponding criteria, as well as considering them individually.

The observations, in turn, are the basis for forming conclusions against each of the audit objectives. The auditor should assess the significance of the observations in relation to the audit objectives. Auditors will use their professional judgment in drawing conclusions against an audit objective.

Audit Recommendations

When deficiencies are reported, audits should include recommendations to guide necessary corrective actions.

Audits include recommendations to prompt corrective action where the potential for significant improvement of a staffing activity is demonstrated by the report findings. A recommendation may address a single deficiency or a number of related observations or deficiencies.

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 standard should be justified on a case-by-case basis and approved by the Vice-President, Audit Branch. The audit can still make a major contribution in such cases by bringing a highly professional analysis of the situation to the attention of the entity being audited and Parliament.

Where corrective action is underway, it is good practice to point this out in the report.

Recommendations should be:

- fully supported by, and flow from, the associated observations and conclusions;
- related to the underlying causes of the deficiency;
- clear, succinct, straightforward and sufficiently detailed to make sense on their own;
- broadly stated (i.e., stating what needs to be done, while leaving the specifics of how to the management of the entity being audited);

- action-oriented (i.e., presented in the active voice and addressed to the organization with the responsibility to act on them);
- positive in tone and content;
- 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);
- results-oriented (i.e., 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); and
- coherent and consistent with the other recommendations in the audit report.

The audit team, at any time during the examination phase, may come across situations where immediate action is required. These situations should be brought to the attention of the Vice-President, Audit Branch. If the audit team concludes that:

- there is a possible breach of legislation or fraudulent action, Legal Services should be consulted;
- there is a staffing action which is not in compliance with the PSEA, the Director General, Audit Operations will determine if the action should be brought to the attention of the deputy head of the audit entity or the PSC Investigations Branch for an investigation;
- there are serious deficiencies in the exercise of delegated authority by the deputy head and that conditions should be imposed, the Vice-President, Audit Branch should consult with the Vice-President, Policy Branch of the PSC to obtain the President's approval. The audit report should reflect these actions. The auditors may also recommend conditions under which the delegated authority could be retained or returned; and
- there are deficiencies in the application of the PSC's own non-delegated authority, the auditors may make recommendations to the branch where the deficiencies occurred.

A recommendation for changes to legislation is highly sensitive. If observations point to the need for such changes, the matter should be discussed with Legal Services.

Audit Conclusions

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

The process of dividing the audit into component parts does not remove the need to make conclusions in relation to the overall audit objectives. Planning decisions have identified the audit issues. Audit evidence has been gathered and performance in the critical areas has been assessed against each of the criteria. Actual performance has been found to be satisfactory or deviations from the criteria have been identified. Further examination of the deviations from satisfactory results of good practices has led to the development of observations.

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 with respect to the overall objective may not pose a problem. In these cases, the audit report would contain an unqualified (positive) conclusion or an adverse conclusion. An adverse conclusion is used when the significance and extent of the deviations from satisfactory performance are persuasive. In the majority of cases, 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.

Issues Outside the Audit Jurisdiction of the PSC

During the course of an audit, the audit team may come across a potential issue that is outside the audit jurisdiction of the PSC. In such instances the audit team should consult with Legal Services to determine the next steps to be taken. This would include determining:

- which authority would have jurisdiction over this issue;
- whether this issue should be brought to the attention of the appropriate audit or investigative authority (for example, the Office of the Auditor General, the Canadian Human Rights Commission, or the PSC Investigations Branch);
- how the issue should be raised with entity management; and
- whether the issue should be raised in the audit report.

The audit team should collect sufficient evidence to be able to explain to the appropriate authority why the issue is being raised.

Examination Report

Having completed the field audit work, the audit team prepares the Examination Report. This Report includes an annotated outline of the audit report, as well as a summary of the audit observations, recommendations, and conclusions with respect to each audit objective. It is used to review facts and the results of the tests. At the same time, the audit team begins preparing the substantiation binder.

This Report is presented to the Vice-President, Audit Branch, for advice and comments. After being reviewed, it is used as the basis for debriefing the management of the entity being audited. As well, it serves as the starting point for writing the internal draft report, as discussed in the next chapter.

Working Papers and Audit Files

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 should include:

- the Commission's approval of the selection of the audit;
- information gathered from the survey, including relevant analysis;
- the terms of reference;
- the summary examination plan and the examination plan;
- where applicable, an explanation of major deviations from the original examination plan and approval for that deviation;
- decisions by the Commission, President and Vice-President, Audit Branch;
- management's views of the objectives, criteria and other elements of the audit;
- audit programs (if any) specifying the work to be carried out and the work completed;
- comments and advice from advisors, the AAC and the quality reviewer, and significant audit decisions taken by the audit team and Vice-President, Audit Branch based on this advice;
- reporting phase signoffs;
- significant correspondence with entity management;
- entity management's comments on the audit report and steps taken to resolve any differences;
- the internal draft audit report presented to the AAC, with the corresponding substantiation binder;
- comments resulting from the various draft reviewers, and corresponding clearance of those comments; and
- a summary for each audit objective, explaining how the methodology was employed, the nature and extent of the evidence collected, and the analysis to which it was subjected.

The audit team should maintain a PSC audit control file that contains the critical documents related to the management of the audit as a project. This file contains the most significant reports, approvals and decisions throughout the life cycle of the audit.

The auditors are required to comply with the *National Archives of Canada Act* in the retention of their working papers. All working papers are confidential documents belonging to the PSC. Audited organizations, Parliament and the public do not have automatic right of access to working papers. All requests for working papers from outside the Audit Branch should be forwarded to the PSC Access to Information and Privacy (ATIP) Office.

6 Audit Reporting Phase

Each audit should result in a report that has been edited to communicate in a clear, precise, persuasive and effective manner, using plain language. The report should include:

- **the objectives, nature, scope and time period covered by the audit, including any limitations;**
- **the professional standards and policies adhered to;**
- **a description of the appointment process or other activity that was audited;**
- **the criteria used and any disagreement with management of the audited entity on their suitability;**
- **the observations made;**
- **the conclusions reached regarding each audit objective;**
- **the recommendations that were made to guide corrective action; and**
- **comments provided by management of the audited entity, including planned action in response to the audit and any differences of opinion.**

Style of Audit Reports

The reputation and credibility of the PSC's audit function, and of the PSC as a whole, depend to a great extent on the quality of the PSC audit reports. The reports are a major part of what Parliament, the audited entities, the media and the public see of the work of the PSC. Consequently, the reports have to meet the highest attainable standards for content and presentation. In preparing an audit report, the audit team should keep in mind the end uses of the report, including the:

- assurance to Parliament that appointments to and within the federal Public Service are based on the merit principle and staffing values, competency, representativeness and non-partisanship; and
- use made by parliamentarians in their scrutiny of the federal Public Service appointment process.

The purpose of an audit report is to provide assurance, as well as to achieve positive change when necessary. These purposes can be more easily achieved if the report:

- is clear, precise and written in plain language to ensure that the reader will understand what the report is trying to communicate;
- is convincing;
- highlights the important areas for the reader;
- is fair and presented in an unbiased tone, noting where management has taken actions to correct the deficiencies and pointing out exemplary performance; and
- only deals with matters of significance.

Content of Audit Reports

The following information sets out the key content components of PSC audit reports.

Objectives

Clearly set out the key questions about the appointment process that the audit sets out to answer.

Timing

Inform readers of the period of time for which assurance is being given in the audit report, to assure them that the report is dealing with issues of current interest.

Nature and Scope

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 specific authorities or whether its transactions were carried out in compliance with specific authorities, the scope of the audit will state the authorities against which compliance is being reported.

Professionalism

Assure the reader that the audit was conducted in a professional manner. All PSC audit reports to Parliament should state the following:

All of the audit work in this report was conducted in accordance with the legislative mandate and audit policies of the Public Service Commission of Canada.

Level of Assurance

State the level of assurance that is being provided by the work. The work reported in PSC audit reports is performed at an audit level of assurance, which provides a high but not an 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 such as inspection, observation, enquiry, confirmation, computation, analysis and discussion, so that the risk of an inappropriate conclusion is reduced to a low level.

Description of the Activity

Provide sufficient context and background material for the reader to understand the issues and obtain a perspective on the audited activity.

Entity Management's Responsibilities

Advise on management's responsibility for the performance and results of the staffing activities subject to audit.

Criteria

Point out the basis for measuring performance and the source of the criteria, as well as any disagreement with audited entity management on the suitability of the criteria chosen.

Observations

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 the impact on the quality of performance or by quantifying the problem. Observations are given on the extent to which the actual performance satisfied the criteria. They also, wherever possible, describe the effect on the results. The issue is to be presented in a convincing but fair way. The underlying cause of any problem is described and visual aids are incorporated, wherever possible, to illustrate the nature of the problem.

Recommendations

Guide the action needed to correct any problems.

Entity Management Responses to Recommendations

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

Conclusions

Point out the assessment of performance against each audit objective, including, where necessary, any qualifications.

Executive Summary

All reports should contain an executive summary. The executive summary should cover all the important messages outlined in the report and have a concordance in tone and emphasis with the body of the report and media release. The executive summary is divided into the following three parts.

- **Main Findings**
Describe the main message of the report. This section might include an occasional concrete example to facilitate understanding.

- **Background and Observations**
Tell the reader what is essential to know to understand the main message. It might include historical references and other important points.
- **Summary of Entity Management Responses**
Briefly describes the entity's commitment to take action, or lack thereof.

Third-Party References

“Third Party” is defined as any organization or person outside of the entity being audited that is mentioned in the audit report. The PSC owes third parties a duty of care to ensure accuracy and fairness of references. Legal Services should be consulted concerning any reference to third parties.

Third parties mentioned in an audit report 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 which concern them. Any reference to third parties should respect their legal rights, particularly with respect to reputation and confidential information.

Reporting Process Towards Finalization

Having completed the examination plan and debriefed the management of the audit entity, the audit team should:

- continue preparation of the substantiation binder;
- initiate the audit report communications and distribution plan; and
- initiate a plan, taking into account the timing and need for editing and translation resources.

Drafts and Final Report

The following drafts should be prepared in the process of finalizing a PSC audit report.

Internal Draft

The internal draft, built from the examination report, should be prepared on completion of the debriefing of the audit entity management. It is used to:

- obtain views of the AAC and the President on the significance and ordering of the issues and whether the report message “hits the mark;” and
- start the editing, translation and production processes.

External Draft

The external draft should be as close to the final report as possible. It should be:

- approved by the Vice-President, Audit Branch;
- reviewed by the quality reviewer;
- approved by Legal Services with respect to the audit mandate and third-party issues;
- reviewed and edited by the Communications and Outreach Directorate;
- reviewed by third parties for comments, where applicable; and
- reviewed by the audit entity for comments.

The audit team should provide the external draft to the management of the audited entity for review purposes in the official language(s) requested by the entity.

The executive summary section is included in the external draft. Writing of the executive summary will benefit from the writing of the news release which, because it involves a condensed telling of the story, exposes any ambiguity, and forces the auditors to think clearly and to use simple words.

Transmission Draft

After the audit team has dealt with entity comments on the external draft, the Vice-President, Audit Branch and the Quality Reviewer should review the revised draft. It should then be forwarded to the President for approval before being submitted to the deputy head of the audited entity.

The transmission draft, provided to the entity in both official languages simultaneously, is used to obtain the deputy head's response, planned corrective actions and any disagreements, and sign-off.

Entity Management Responses to Recommendations

The audit report will contain entity management responses to each recommendation, indicating whether there is:

- agreement with the recommendation and a commitment to undertake action;
- agreement with the recommendation and an explanation as to why the action cannot be undertaken at this time; or
- disagreement, with a brief explanation.

Responses provide the PSC and Parliament with a basis for follow-up. Responses are not normally included when there are no recommendations.

The deputy head signs off the report and provides the PSC with the responses. When two or more departments or agencies have been included within the scope of the audit, one joint response or multiple responses is/are acceptable. Government-wide audits can be responded to by the lead agency, the Treasury Board Secretariat or the Public Service Human Resources Management Agency of Canada on behalf of the government.

The PSC has established limits on the content and publication of management responses. The audit team should ensure that the management of the audited entity is informed of these limitations and encourage them to comply. Responses should be short and clear—normally no more than two paragraphs. Where appropriate, an overall audit entity action plan that responds to the observations and recommendations will be included in the audit report. The PSC will not include in the audit report a response or comment that the PSC considers materially wrong or misleading.

The audit report stands on its own merit. The PSC does not respond to the comments of the audit entity in the report. Where the PSC disagrees with an audit entity position, the report will reflect the nature of the disagreement. If there is a substantial disagreement between the audited entity and the auditors, this will be highlighted in the executive summary of the audit report.

Final Approval

Once the entity management responses are incorporated into the audit report, final approval should be obtained to ensure that the work has been performed in compliance with the PSC audit policies and quality management practices, including consultation with the AAC and the quality reviewer. As a minimum, sign-offs should be obtained from:

- the director general responsible for the audit;
- the PSC legal advisor;
- the quality reviewer; and
- the Vice-President, Audit Branch.

The report is presented to the AMC, which recommends the report for approval by the President.

Release of PSC Audit Reports

The PSC may publish its audit reports semi-annually or annually with the PSC Annual Report. This requires a major effort by many groups and individuals in the PSC. Milestones are scheduled to help the audit directors general and managers to manage their projects, and to work with other groups such as editing, translation, and parliamentary liaison in Communications and Outreach, and Legal Services (see Appendix D). The entire process (detailed in Chapter 3) should be managed and overseen by the AMC to ensure that the delivery of the PSC audit reports is according to the Annual Audit Plan.

The PSC audit reports would be provided to the Standing Committee on Government Operations and Estimates and, as appropriate, to other relevant standing committees such as the Public Accounts Committee. The President and the Vice-President, Audit Branch, may be called upon to communicate audit findings to members of Parliament.

The executive summary of each audit is incorporated in the PSC Annual Report for tabling in Parliament in the autumn of each year. The President provides a message on the overall audit results and the advancement made in the strategic audit priorities that were identified during the PSC strategic planning process.

Audits that are time-sensitive are considered as special audits. They are managed by the AMC under negotiated timelines. These audit reports are released when ready.

7 Audit Follow-Up Phase

Follow-up audits should:

- be conducted no later than two years after the completion of an audit; and
- result in a report that provides an assessment of the adequacy of the corrective action taken to resolve previously reported issues.

Purpose of the Audit Follow-Up

The follow-up phase plays an important role in PSC audits. It closes the loop in the auditing process by reporting on action the entity has taken in response to audit findings and recommendations contained in previous reports, and on the progress made toward the implementation of these actions.

Entities are ultimately responsible for taking action to improve management practices.

Follow-Up Process

It is important for both the PSC and the audited entity to know the extent to which corrective action has taken place to resolve previously reported issues. The PSC conducts a follow-up no later than two years after the completion of an audit. Some audits may need to be followed up sooner than others, due to the significance and nature of the issues raised in the original report.

In the initial planning of a follow-up, the audit team should consider the following questions:

- Is the time appropriate for follow-up (has the entity had enough time to address the issues and take subsequent actions after they were reported)?
- Should the audit address the implementation of the recommendations only?
- Has the initial problem or issue identified evolved with time?
- What is the extent of the risk associated with issues raised in the original report?

The focus should be to determine the progress achieved in resolving the issues originally identified. However, issues may evolve with time, and focussing strictly on recommendations may miss a new concern, as the recommendations may not be fully relevant to new circumstances or the evolution of the issue.

The follow-up process should begin with a request to the entity for an update on the status of the action taken to implement the recommendations from prior years' audits. The request should include the following questions:

- What steps have the entities taken to achieve the needed improvements?
- How well are entities progressing in those efforts?

The progress in resolving the issues or the degree of success in fully implementing PSC recommendations should be rated by the audit team. The team should consider using a rating scale that includes:

- 1. No progress or insignificant progress**
Generating informal plans is regarded as insignificant progress.
- 2. Planning stage**
Formal plans for organizational changes have been created and approved by the appropriate level of management, with appropriate resources and a reasonable timetable.
- 3. Preparation for implementation**
The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
- 4. Substantial implementation**
Structure and processes are in place and integrated in some parts of the organization, and some achieved results have been identified. A timetable is in place for full implementation.
- 5. Full implementation**
Structures and processes are operating as intended and implemented fully in all intended areas of the organization.
- 6. A recommendation is no longer applicable**
The recommendation is obsolete due to time lapses, new policies, etc.

Early in the process, the audit team should provide the entity's management with the scale to be used. At the end of the follow-up, the audit team should present and discuss the results with entity representatives and prepare a report.

By tracking the results of the audit follow-ups, the PSC will have a measure of progress made toward resolving previously reported issues.

Resourcing the Audit Follow-Up

Ideally, the original audit team members carry out the follow-up. However, this may not be possible because of conflicting scheduling needs.

As in audits, it is important to ensure that team members assigned to the audit follow-up have the appropriate competence required for the subject matter of the audit. If the audit team is made up of new members, the audit director general should organize a session at the initiation of the follow-up for a comprehensive briefing or orientation to transfer the knowledge from the original audit team.

Possibilities for Re-Audit

In reviewing the situation for audit follow-up, the audit team may find that the issues have evolved and need to be redefined. New issues may also be identified and judged important for assessment and reporting to Parliament. From a risk perspective, the key issues should be identified for re-audit.

8 Study Policies

Background

The PSC's enhanced focus on oversight, and its strengthened audit function in the newly created Audit Branch, provide an opportunity to clarify the "business" and "products" of this audit function. The primary means of fulfilling the PSC's audit mandate is the delivery of audits. This should be the predominant form of examination used by the PSC Audit Branch.

Studies are another product of the Audit Branch. They are normally more descriptive or exploratory in nature than audits and 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 part of a study all at once or over a series of years.

In the past decade, the PSC has produced a wide variety of review products. These products have been examined and regrouped as either audits or studies for use within the new Audit Branch. Certain evaluations, thematic studies and systemic investigations are now conducted as government-wide audits. They cover government-wide issues, functions or systems across government departments, and should be conducted according to PSC audit policies. Other evaluations and thematic studies are now conducted as studies.

All studies should be conducted with the same rigour as audits, with the same systematic, disciplined, evidence-based approach, and with the same degree of professionalism. The process to be followed includes planning, examination and reporting. Follow-up is done if deemed appropriate. However, studies are conducted under the policies contained in the next section of this chapter.

Because of the more descriptive or exploratory nature of studies, their objectives are usually different from audit objectives. For example, the objectives of studies can be to:

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

When it is proposed to conduct a study rather than an audit, the team should provide the rationale for deeming a study to be the more appropriate form of inquiry.

PSC Study Policies

General Policies

- All studies should be completed in accordance with the study policies and practices of the PSC.
- The PSC Audit Code of Professional Conduct, the *Values and Ethic Code for the Public Service*, and other PSC policies should be adhered to in all study activities.
- All studies should be managed as projects.
- All studies should be conducted within a quality management system.
- Deputy heads and their senior managers should be informed of their responsibilities with respect to studies performed by the PSC.
- The long-range and annual audit plans for the PSC should ensure that matters of significant risk relevant to the PSC's mandate and priorities are audited or studied in a timely fashion and that the requirements of the PSC's mandate are met.

Study Conduct Policies

The study team should:

- exercise due care in carrying out the study;
- comprise individuals who have an objective state of mind and who are independent;
- have a collective knowledge of the subject matter and the proficiency necessary to fulfill the requirements of the study;
- ensure proper supervision of all of its members;
- seek entity management's views about critical elements of the study;
- obtain appropriate and sufficient consultation and advice throughout the study; and
- maintain appropriate documentation and files.

Study Planning and Examination Policies

Each study should:

- be adequately planned to meet the study's objectives in an effective and efficient manner;
- have clear objectives;
- have a clear scope that focusses the extent, timing and nature of the study;
- select issues on the basis of their relevance to the PSC's mandate, and their significance and suitability;
- involve objective evaluation of the evidence to develop observations;
- have appropriate and sufficient evidence to support conclusions; and
- have appropriate and sufficient evidence to support the contents of the study report.

Study Reporting Policies

Each study should result in a report that has been edited to communicate, in a clear, precise, persuasive and effective manner, using plain language:

- the objectives, nature, scope and time period covered by the study, including any limitations;
- the professional standards and policies adhered to;
- a description of the appointment process or other activity that was studied;
- the observations made;
- any recommendations that may have been made; and
- the conclusions reached.

Study Follow-Up Policies

If it is deemed to be appropriate, a follow-up is conducted within two years of the completion of the study, and result in a report that provides an assessment as to the adequacy of the corrective action taken to resolve previously reported issues.

A Comparison of PSC Audit and Study Policies

Studies follow both the same general and conduct policies as audits. However, study policies for examination, reporting and follow-up differ somewhat from the PSC audit policies.

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

- Studies are not required to have objectives against which conclusions can be made. 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.
- Studies are not required to have criteria, and consequently are not required to have an evaluation against those criteria. In fact, the objective of a study can be to develop criteria.
- Studies are not required to include recommendations. Recommendations can be included, however, if deemed appropriate.

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

- Because studies are not required to have criteria, they may not include disclosure of the criteria used and any disagreements with management on those criteria.
- Recommendations do not have to be reported because studies are not required to include recommendations. They may be included if 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 objectives.

The follow-up policies for studies are different from those of audits. Studies do not have to be followed up. However, if deemed appropriate, significant observations are followed up.

As studies are required to be performed with the same degree of professionalism as audits, they share the same practice expectations and quality management framework as outlined in this Manual.

The approval process for conducting studies should follow the same process as for audits (see Chapter 2). When a study is proposed for inclusion in the long-range and Annual Audit Plan, the team should clearly indicate that it is proposing a study rather than an audit and give reasons why the study is the more appropriate form of inquiry.

9 Audit Quality Management Framework

Context

The Public Service Commission's (PSC) Audit, Evaluation and Studies Branch (AESB) carries out audits in order to provide objective information, advice, and assurance to Parliament and Canadians on the integrity of the public service staffing and appointment process.

The PSC's Audit Quality Management Framework (QMF) has been designed in response to our mandate under the Public Service Employment Act (PSEA) and to ensure that we build quality, consistency and improvements into our work in line with the professional standards that govern our practice.

Principles of audit quality management

The PSC's QMF is based on the following underlying principles:

- Quality is integral to every step of the process and is an ongoing consideration;
- Clearly understood and well-defined roles and responsibilities where accountabilities are properly communicated to all parties;
- Controls are results-focused, multi-tiered and multi-leveled and an appropriate mix of internal and external controls exists;
- An appropriate number of controls are in place to address, in a timely manner, areas of potential risk affecting quality; and
- The framework is subject to continuous improvement and evolves with the participation of audit practitioners.

The Strategic Plan encompasses AESB's QMF. The plan is continuously evolving and is regularly updated to reflect the current environment within which AESB 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, a respectful workplace, trust and integrity and leading by example. (see Chapter Two) In developing the Strategic Plan, AESB recognizes that no set of rules or controls can cover every circumstance that arises in the course of carrying out an audit. Emphasis is placed on the exercise of sound professional judgement.

Sound professional judgement is an overriding component for quality management and must be used in planning and performing audits and reporting the results. Among other things, auditors are expected to exercise reasonable care and diligence and to observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity and independence. Professional judgement requires auditors to exercise professional scepticism and to avoid making assumptions. The right balance must be achieved between required control steps, as they are laid out in the QMF, and the amount of professional judgment practitioners may exercise. The Audit QMF recognizes

professional judgement in the form of flexibility and discretion for practitioners, while also requiring of them appropriate risk mitigation and documentation of key control steps and rationale for decisions.

Elements of the Audit Quality Management Framework

Exhibit 9.1 shows the five main elements – leadership and planning, audit management, client focus, people and continuous improvement – as well as related sub-elements of the Audit QMF. The corresponding legend serves to indicate the quality assurance and/or quality control provisions that apply to a given element.

Exhibit 9.2 provides additional detail related to the type of assurance and key tools corresponding to the elements outlined in Exhibit 9.1.

Throughout the audit process, the PSC builds a quality chain into its audits (Element 2 – Audit Management) by means of challenge, review, consultation and advice and project management. This involvement is summarized in Exhibit 9.3 and complements the audit roles and responsibilities provided in Chapter 1.

Continuous improvement of the Audit Quality Management Framework

The Audit QMF is subject to continuous improvement through the following:

- 1) product and/or process assessment;
- 2) the identifying and documenting of lessons learned;
- 3) the tracking of suggested initiatives for improvement;
- 4) internal and/or external scrutiny of our approaches;
- 5) formal documentation of standards and expected practices; and
- 6) capacity building, including the development of activities to build upon and update practitioners' awareness, knowledge and understanding of new standards and/or expectations.

These activities apply equally to all elements of the Audit QMF. This interactive approach to continuous improvement will ensure that our management of quality continues to evolve to reflect the current environment within which the AESB operates. The emphasis on continuous improvement will also ensure that our strong focus on the continuous cycle of quality assurance is maintained.

Exhibit 9.1

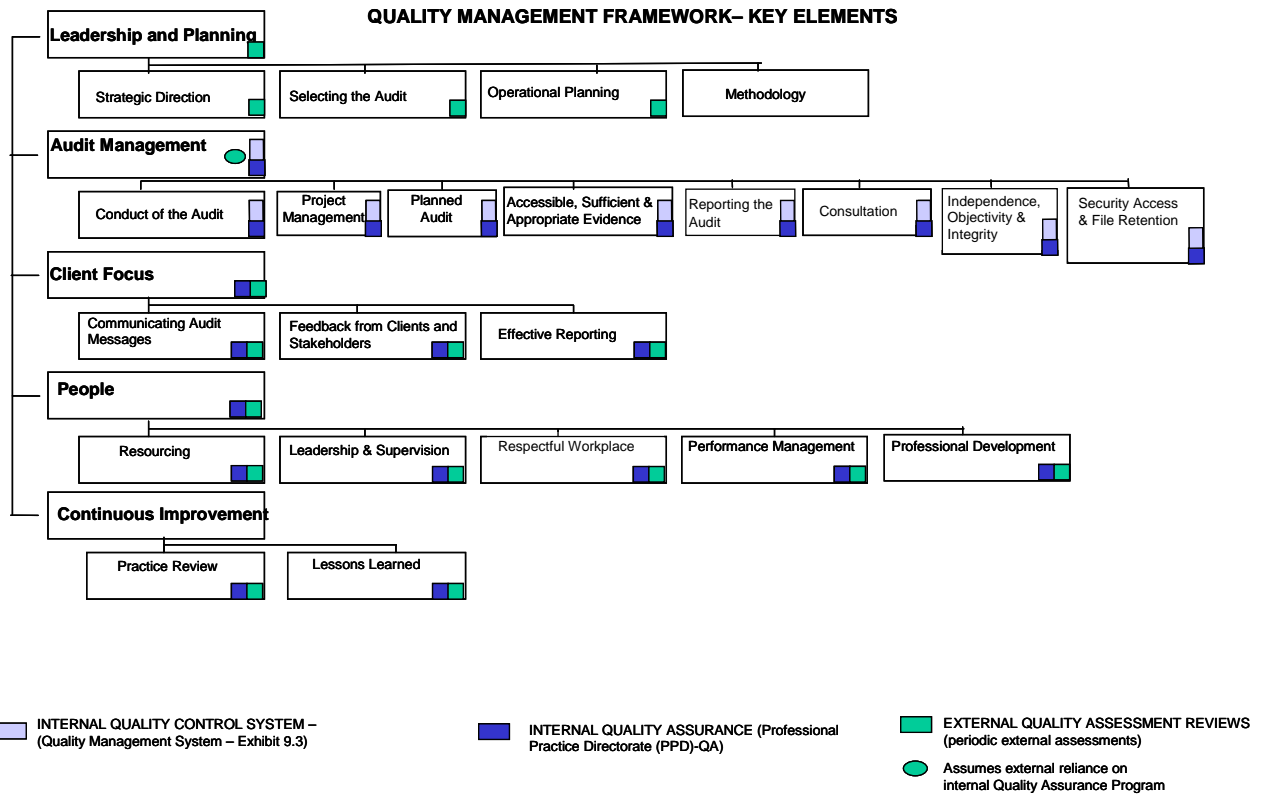


Exhibit 9.2

Elements and Tools of the Quality Management Framework for Audits

Element of Quality Management	Element Provides Assurance That:	Key Tools
<i>Leadership and Planning</i>		
1. Strategic direction	The strategic direction focuses on the changes required to continue to address the transitional needs and mandate of the Branch specifically and of the Commission in general. Management sets the tone at the top and future direction, strategy and priorities are communicated to the branch.	<ul style="list-style-type: none"> • <i>Public Service Employment Act (PSEA)</i> • Operational plan • Strategic plan • Other legislation • Environmental Scan • Independent Audit Advisor Committee
2. Selecting the audit	Audits are within PSC's authority and address high risk areas and/or areas that are seen as important and relevant for review by Parliament, the public and departments/agencies.	<ul style="list-style-type: none"> • PSEA • <i>Public Service Employment Regulations</i> • PSC Staffing Policies • PSC Report on Plans and Priorities/Departmental Performance Report • Branch Operational Plan • Staffing Management Accountability Frameworks • Departmental Staffing Accountability Reports
3. Operational planning	Budgets and assigned resources are sufficient to complete the work outlined in the Operational Plan. Audit selection is risk-based and work is prioritized.	<ul style="list-style-type: none"> • Operational Planning exercise • Strategic Plan • Risk assessments • Monitoring activities • Survey reports

Element of Quality Management	Element Provides Assurance That:	Key Tools
<i>Leadership and Planning</i>		
4. Methodology	Appropriate methodology, tools and techniques are in place, useful and applied consistently. Robust methodologies are developed, updated and applied rigorously. Practitioners are encouraged to share best practices and suggest improvements to the profession.	<ul style="list-style-type: none"> • Methodology review and update mechanisms for audit methodology • Lessons learned • Capacity Building Committee • Professional standards • Practice advisories • Practice Review reports • External/peer review
<i>Audit Management</i>		
5. Conduct of the audit	Audits are conducted with due regard to efficiency and economy in terms of time spent and resources consumed and in accordance with the legislative mandate policies and practices of the PSC. Audit practitioners possess the tools they need to conduct their audits efficiently.	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Canadian Institute of Chartered Accountants (CICA) standards • Electronic working papers • Analytical software
6. Project management	The audit team delivers the audit on time, in accordance with PSC principles and audit costs are justified.	<ul style="list-style-type: none"> • PSC Competency model • Human Resources information (indicators) • Key milestones • Audit Control file • Status Reports • Electronic tools

Element of Quality Management	Element Provides Assurance That:	Key Tools
Audit Management		
7. Planned audit	<p>Audit work is adequately planned.</p> <p>Issues are selected on the basis of risk, their relevance to the Commission's mandate, their significance and feasibility.</p> <p>Criteria that are suitable for evaluating the subject matter are identified and developed.</p>	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Audit proposal • Survey Report • Examination Plan • Audit Advisory Committee • Quality Reviewer • Budget • Resources
8. Accessible, sufficient, and appropriate evidence	<p>Sufficient and appropriate evidence is gathered from the client and/or other sources to provide a reasonable basis to support the observations, findings and conclusions expressed in the report.</p> <p>Issues that are higher risk and are, in the auditor's professional judgment, important to provide evidence to support the conclusion expressed in the report are documented.</p>	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Professional standards • Confirmation of findings resulting from field work with the entity audited • Clearance meeting minutes • Review by DG/VP, Quality Reviewer, and Audit Committee of significance and ordering of issues, report message and conclusions and their rationale. • Logic arguments • Substantiation and working papers
9. Reporting the audit	<p>The final product is a quality report that addresses areas of high risk. The report is relevant, significant, coherent, credible, timely and easily understood by readers.</p> <p>Oversight is built into every report prior to their release, therefore ensuring consistency with mandate as well as past corporate decisions and messages.</p>	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Quality Reviewer • Clearance process with entity and third parties where applicable • Challenge by Audit Advisory Committee • Final review by VP and President • Communications and Parliamentary Affairs

Element of Quality Management	Element Provides Assurance That:	Key Tools
Audit Management		
10. Consultation	Authoritative experts are sought and specialists with appropriate competence and professional judgment are consulted as required by the engagement.	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Audit advisory committee • Quality Reviewer • Legal Services and other services within the Commission • Subject matter specialists
11. Independence, objectivity and integrity	All persons performing the audit, including specialists, are objective and remain unbiased in carrying out their responsibilities and in forming their conclusions. Practitioners are, and appear to be, free from relationships that may bias their professional judgment.	<ul style="list-style-type: none"> • Values and Ethics Code for the Public Service • PSC Audit Code of Professional Conduct • PSC Audit Manual and guidance
12. Security and file retention	<p>The security and confidentiality of sensitive information and of access to sites and documentation is maintained.</p> <p>Files retained for audit purposes are protected in accordance with the PSC's records policies and the Government Security Policy.</p>	<ul style="list-style-type: none"> • <i>The Library And Archives of Canada Act</i> • Special Institutional Disposition Authority (PSC) • Government Security Policy • PSC security policies • PSC records management policies • PSC records retention policy
Client Focus		
13. Communicating audit messages	<p>Audit messages are communicated to entities through clearance.</p> <p>Significant issues are shared with the entity when and where necessary.</p> <p>Post-tabling audit messages are communicated clearly and consistently.</p>	<ul style="list-style-type: none"> • Clearance meetings • Guidance from Parliamentary Liaison about pre-tabling briefings and briefing requirements and in preparing communications to parliament • Guidance from Communications and Parliamentary Affairs regarding press releases and responses to media inquiries

Element of Quality Management	Element Provides Assurance That:	Key Tools
<i>Client Focus</i>		
14. Feedback and responses from clients and stakeholders	Clients and stakeholders perceive the audit process as being useful.	<ul style="list-style-type: none"> • Database for tracking audit recommendations • Analysis of external communications (media, public enquiries, references in debates) • Analysis of the scrutiny of the report by standing committees of the House of Commons
15. Effective reporting	Intended users of AESB reports clearly understand and correctly interpret the messages they contain.	<ul style="list-style-type: none"> • Entity surveys
People		
16. Resourcing	<p>Audit teams must have the appropriate skills to meet the requirements of the audit engagements to which they are assigned. Teams are assembled based on:</p> <ul style="list-style-type: none"> ➤ Sufficient subject matter expertise; and ➤ Appropriate technical training and audit proficiency necessary to meet the requirements of the engagement. 	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • PSC Competency Profiles • Professional Development Program curriculum • Mandatory PSC training • Mandatory public service training • CICA Standards • Code of Conduct
17. Leadership and supervision	<p>Auditors and consultants receive an appropriate level of leadership, direction, coaching and recognition.</p> <p>Supervision of team members, specialists and consultants ensures that audits are properly conducted.</p>	<ul style="list-style-type: none"> • PSC Audit Manual and guidance • Annual Performance Agreement and Feedback Report • Objectives • Collective agreements • Work descriptions

Element of Quality Management	Element Provides Assurance That:	Key Tools
People		
18. Respectful Workplace	A working environment is provided in which everyone is treated with dignity and respect and encouraged to reach their full potential. Open and honest communication to create a climate of trust and teamwork is encouraged. Talent and diversity is valued and learning and quality-of-life endeavours are supported.	<ul style="list-style-type: none"> • Public service values and ethics • Human resources policies and guidance • <i>Official Languages Act, Employment Equity Act and Canada Labour Code</i>
19. Performance management	Employees receive timely and constructive feedback on their performance and have access to counseling and guidance.	<ul style="list-style-type: none"> • Annual Performance Agreement and Feedback Report • Networking • Professional Development Program
20. Professional development	Auditors have access to an evolving learning and development framework as well as career development opportunities.	<ul style="list-style-type: none"> • Annual Performance Agreement and Feedback Report • Objectives • Networking • Learning and development framework • Core course curriculum • Formal and informal professional development • Resource centre
Continuous Improvement		
21. Practice review	<p>Our audit practice meets the QMF.</p> <p>Our Audit QMF is appropriate and effective.</p>	<ul style="list-style-type: none"> • Regular internal practice reviews • Internal audit • Audit Advisory Committee • External practice review by experts
22. Lessons learned	Audit experience is assessed and opportunities for improvement are identified and implemented.	<ul style="list-style-type: none"> • Lessons learned • Audit Directors' Forum • Capacity Building Committee

Exhibit 9.3

**PSC AUDIT
QUALITY MANAGEMENT SYSTEM**

Key Milestone	Audit Manager (AM) Director (D) Director General (DG)	Reporting Management Committee (RMC)	Quality Reviewer (QR)	Vice President, Audit	IAAC (1)	Entity Management	President
OVERALL PLANNING							
Long-Range and Annual Audit Plan					Advise and recommend		Approval by Commission
PLANNING							
Initial Entity Letter	DG Approve			Approve/ Sign-off			
Audit proposal	D Prepare DG Recommend	Feedback/Advice		Approve			
Audit Profile	AM Prepare D Review DG Approve						
Engagement Letter	DG Approve			Approve/ Sign-off			
Audit Survey Plan	D Prepare DG Approve						
Audit Survey Report	D Prepare DG Recommend	Feedback/Advice	Review	Approve			Brief the President
Examination Plan	D Prepare DG Approve			Approve/ Sign-off			
EXAMINATION							
Audit Examination Report	Approve		Review				
Report Author Info Session (Storyboarding/ Annotated Outline)	Approve						
Entity Debrief	Recommend			Approve		Feedback	
REPORTING							
DRAFT INTERNAL REPORT	Approve		Review	Review			Advice
Internal PSC Consultations						Feedback/ Advice	
EXTERNAL DRAFT REPORT – for entity comment & clearance (2 - 4 weeks)	Recommend		Review	Approve		Deputy Head review & comment	
Edit & Translation	Approve						
TRANSMITTAL DRAFT REPORT – for approval	Review			Recommend			Approve
Entity Sign-off (2 weeks)						Deputy Head sign-off	
Comparative Read & Edit	Approve						
FINAL REPORT - approval to print : - Substantiation Review Certificate - Final Approval Certificate	Sign-off Sign-off		Sign-off Sign-off	Sign-off & Recommend			Approve
COMMUNICATIONS & PUBLISHING							
Prepare Highlight Sheet and Qs & As				Approve			
Prepare President's Briefing Notes				Approve			
Pre-release Briefing for President				Approve			
Distribution of Report (paper and Web)				Approve			
POST RELEASE							
Submit PSC Accountability Report to Senior Management Team (SMT)	Prepare	Feedback/Advice					

(1) The involvement of the Independent Audit Advisory Committee (IAAC) is at the Strategic Planning Level. However, completed audits will be presented to the IAAC for information purposes.

PSC Audit Code of Professional Conduct

Introduction

The Public Service Commission (PSC) of Canada is an independent agency reporting to Parliament. Under the current *Public Service Employment Act (PSEA)* and the new *PSEA*, which received Royal Assent in 2003 and which is scheduled to come into force by the end of 2005, the PSC is vested with the authority to make appointments to and within the federal Public Service. The new *PSEA* states in its preamble that the delegation of this authority should be to a level as low as possible within departments and agencies, to give Public Service managers the necessary flexibility to staff, manage and lead their personnel to achieve results for Canadians.

While both the current and new *PSEA* give the PSC the authority to conduct audits on any matter within its jurisdiction, the new *PSEA* provides the PSC further authority to audit and make recommendations on the exercise of authority by deputy heads in setting qualifications, requirements and needs. Furthermore, under the new *PSEA*, appointments continue to be subject to the policies of the PSC.

It is within this context of the increased delegation of authorities to departments that the PSC is strengthening its audit function, which is carried out by the Audit Branch.

The PSC Audit Code of Professional Conduct adds to the professional discipline required in the conduct of PSC audits. Along with the PSC audit and other policies, it guides Audit Branch employees on a daily basis. This Code links closely with the *Values and Ethics Code for the Public Service*, to which all public servants must adhere.

Application

The PSC Audit Code of Professional Conduct applies to all auditors within the Audit Branch and to those PSC employees and contractors who may be involved in the conduct of an audit. Within the Audit Branch, auditors include all audit employees of the Audit Operations Directorate and the Audit Policies and Quality Assurance Directorate, the Director Generals and the Vice-President, as well as individuals who are seconded to or on interchange with the PSC. Employees who feel that all or part of this Code should not apply to them should raise the matter with their supervisor. The general reporting line for employee concerns with the Code is to his or her supervisor. The President of the PSC has the sole authority to make exemptions from the application of this Code.

The Audit Branch encourages all of its auditors to view themselves as professionals, in the sense that they aspire to high standards in the fulfillment of their employment duties and take pride in their accomplishments.

Effective Date

This Code is effective as of March 31, 2005.

Responsibilities, Authorities and Accountabilities

In addition to the requirements outlined in this Code, Audit Branch auditors are required to observe any specific conduct and other requirements contained in the *Values and Ethics Code for the Public Service*, in the *Public Service Employment Act*, the *Financial Administration Act*, and other acts, regulations and statutes which pertain to their employment, including the:

- *Access to Information Act*;
- *Canada Labour Code, Part II*;
- *Criminal Code of Canada*;
- *Official Languages Act and Regulations*;
- *Privacy Act*;
- *Public Service Labour Relations Act* (formerly the *Public Service Staff Relations Act*); and
- other applicable statutes.

The *PSEA* is the enabling legislation for the Audit Branch and its activities. All Audit Branch activities must be justifiable by reference to the terms and conditions of the *PSEA* and any other legislation that confers responsibilities on the PSC.

Audit Branch manuals setting out audit policies, standards and practices should be referred to in the performance of audits.

Audit Requirements

1. Audit Objectivity

Auditors should not prejudge an entity being audited. They should conduct audits with objectivity. Auditors should not only be objective, they should be perceived to be so.

The validity of the work of the Audit Branch and the confidence placed in it by the PSC, entities being audited and Parliament depend, in large measure, on their perception of the objectivity of the Audit Branch. Therefore, objectivity is a crucial characteristic of the relationship between the auditor and the audited organization. It ensures that the auditor's findings and reports will be influenced only by evidence obtained and assembled in accordance with the audit policies, standards and practices of the Audit Branch, as set out in professional pronouncements, Audit Branch manuals and related methodology.

Measures to prevent conflict of interest

The Audit Branch is particularly vulnerable to allegations of conflict of interest, whether actual, potential or perceived, because they can call into question the objectivity and competence of the Audit Branch to pass impartial judgement. These attributes are essential to the success of the work of the Audit Branch. Since the reputation of the Audit Branch is based upon a number of factors, which include the public's perception of its work, an appearance of a conflict of interest on the part of an auditor can be just as damaging as an actual conflict of interest. Although conflict of interest measures are covered in the *Values and Ethics Code for the Public Service*, additional clarification on this subject is required.

It is clear that conflicts of interest involving an auditor and an audited organization must be avoided. However, this does not necessarily eliminate an auditor from participating in an audit of a department where he or she was previously employed. Audit Branch policy is that at least two years should elapse before an auditor takes part in an audit of a previous employer. In any situation where the nature of the previous position, or its proximity in time, raises questions on the part of the employee or the entity, the auditor has a duty to discuss the matter with the manager in charge of the audit or with the Vice-President, Audit Branch.

a. Past Employment

Auditors obviously cannot audit their own earlier work. They also should not participate in audits that would entail examining the work of friends or close acquaintances. In addition, auditors should not actively seek employment with an entity that they are examining. This could easily be seen as impairing the auditor's judgment and objectivity. Also, should a staff member be approached by that entity about employment prospects, he or she should immediately inform the manager in charge of the audit, or a higher level authority, if appropriate.

Recognizing that employees who are seconded to other departments or agencies remain PSC employees, secondments will not be approved by the PSC where the secondment position will, in the view of the PSC, place the Audit Branch or the employee in a conflict of interest position.

b. Contractual Arrangements

The Audit Branch would not knowingly assign a consultant to an audit entity where the consultant (individual or company) is, has recently been, or may be contractually engaged. In such a situation, a consultant could end up auditing his or her own work or the work of his or her company. Therefore, the Audit Branch requires a history of the consultant's business dealings with the entity being audited, covering the previous two years. The Audit Branch will then decide whether the likelihood exists for a potential conflict of interest. In the same fashion, the Audit Branch needs to be informed of any bid by the consultant or the company in relation to the entity being audited.

Consultants and consulting companies contractually engaged by the Audit Branch are required to provide a complete list, to the best of their knowledge, of current and recent contracts undertaken with an entity that they are examining, on their own behalf

or on behalf of a client who has significant involvement with the entity. They are also responsible for informing the responsible audit manager for the contract of any bid, within their knowledge, that they or their company intend to make in relation to any entity they are auditing or in which they are working on behalf of the Audit Branch.

Auditors involved in contract negotiations have a duty to ensure that contracts entered into by the Audit Branch are the result of well-established procedures and are above suspicion with regard to the validity of the criteria used in awarding them.

The Audit Branch wishes to preserve and maintain the co-operative and mutually beneficial relationships it has with consultants and companies. At the same time, the Audit Branch must be able to demonstrate conclusively that contracts have not been subject to influence either by a former Audit Branch employee currently with the company in question or by a former employee of the company currently employed by the Audit Branch. Contract procedures should ensure that the Audit Branch is protected from even the suspicion of conflict of interest.

2. Audit Effectiveness

The primary role of the Audit Branch is to provide information to the PSC, which will allow the PSC to give assurance to Parliament as to the integrity of the appointment process. The Audit Branch strives to achieve improvements in government activities related to the appointment process. In this regard, auditors should perform a constructive role in the formulation of their audit reports.

Although it is implicit in the auditor's role to offer the management of audited entities recommendations for improvement, care must be taken to ensure that the auditor does not assume the role of management in the provision of such advice. For example, direct participation in formulating policies or in designing systems and related controls should be avoided. In case of doubt on such matters, employees should discuss and clarify the situation with their supervisors.

3. Confidentiality of Audit Information

Auditors are required by this Code to respect the confidentiality of information acquired from audit entities. Auditors shall not disclose any official information or use it for personal reasons without authorization. Information collected in the course of an audit may only be used for the purpose for which it was collected and may not be disclosed other than for PSC audit purposes.

The Audit Branch has developed certain practices and procedures for disclosing audit findings. These are outlined in Audit Branch manuals. Disclosure of official information by auditors shall be only by way of such practices or with the authorization of managers. In addition, auditors must ensure the security and confidentiality of all files, whether in the offices of Audit Branch or on the premises of the audit entity.

Entities have an interest and a right to know audit findings and conclusions. Out of fairness to those entities and to ensure proper verification of conclusions, it is necessary that all audit findings and conclusions be kept confidential until they have been

completely substantiated, processed through an authorized clearance procedure with the audit entity, and approved for release by the President of the PSC. Improper or premature external disclosure of audit findings can harm the audited entity and cause embarrassment to the PSC.

The principle of confidentiality also dictates that all those working for the Audit Branch must be cautious in discussing, with friends, relatives, and colleagues outside the Audit Branch, work in which they are engaged, as well as projects being undertaken elsewhere in the Audit Branch. It is necessary to take care not to make casual comments on the work of the Audit Branch in departments or other entities.

4. Audit Substantiation

Auditors have a duty to be prepared to defend fully against a potential challenge of any and all audit findings, conclusions, and observations they make.

Just as the Audit Branch applies criteria by which to assess the activities of audit entities, it applies a rigorous standard of proof when assessing the evidence used as the basis for audit findings and conclusions. The performance standards expected of Audit Branch auditors are no less stringent than those that the Audit Branch expects of the employees of the entities it audits. This is fair to audited organizations and also maintains and enhances the credibility of the Audit Branch.

Auditors should ensure that the evidence supporting an audit report is appropriate in quality and quantity to make a convincing case for the conclusions reached.

The Audit Branch has a duty to present only findings that are soundly based on facts and that can stand up to rigorous scrutiny. While it may be necessary, on occasion, to present conclusions that involve interpretation, such interpretation must be factual, logically consistent and reasonable. Auditors should maintain an objective, factual perspective.

5. Communications and Reporting

In compliance with the PSC communications policy, all public communications (e.g., speeches, news releases, presentation at conferences) from the Audit Branch may only be undertaken after auditors have received the appropriate authorization from the Vice-President, Audit Branch.

All Audit Branch reports must meet the highest attainable standards for content and presentation. They should be written in accordance with PSC audit policies, in clear, precise and plain language and have gone through an editing process.

PSC Audits: Information For Deputy Heads and Senior Managers

Purpose

This document serves as a reference for deputy heads and senior managers in departments and agencies. It sets out the involvement that deputy heads and other senior managers in departments and agencies (entities) can expect to have in audits conducted by the Public Service Commission (PSC).

Background

The PSC is an independent agency reporting to Parliament. Under the current and new *Public Service Employment Act (PSEA)*, the PSC is vested with the authority to make appointments to and within the federal Public Service. The PSC delegates this authority to departments and agencies. Appointments are subject to the policies of the PSC.

The *PSEA* gives the PSC the authority to conduct audits on any matter within its jurisdiction. In addition, the new *PSEA*, which comes into force by the end of 2005, provides the PSC further authority to audit and make recommendations on the exercise of authority by deputy heads in setting qualifications, requirements and needs.

The PSC's Audit Branch carries out the audit function.

Deputy heads and senior managers in entities have an important role to play during the course of PSC audits. This document focuses on the key points in the PSC audit process where deputy heads and senior managers are involved. It covers the spectrum of activity related to the PSC audit process, from the planning, examination, and reporting phases to subsequent follow-up. Throughout the audit, the audit team will ensure that the deputy heads and senior managers are informed of significant issues of the audit as they arise.

General Principles

The following general principles apply:

- **Entity Contact**

The deputy head of the entity should designate a person to serve as the principal contact with the PSC throughout the audit.

- **Timelines**

The PSC and the entity should communicate and discuss timelines to meet the requirements for completing the audit.

- **Access to Information**

Entity managers should ensure that their staff understand that the PSC has the right of timely access to information and to entity staff. Section 135 of the new *PSEA* states that “Deputy heads and employees shall provide the Commission with any facilities, assistance, information and access to their respective offices that the Commission may require for the performance of its duties.”

Requests by auditors for information should be clear, and the information should be provided by the entity within reasonable/established timeframes.

Disclosure of information to the PSC during an audit does not constitute a waiver of solicitor-client privilege. Therefore, meeting the information needs of the Commission will not jeopardize any solicitor-client privilege in the documents. Information covered by solicitor-client privilege will not be divulged by the PSC unless the entity concerned expressly agrees to waive the privilege.

- **Conduct of the Audit**

The PSC auditors will discuss the objectives, scope and criteria of the audit with entity management before finalizing the audit terms of reference.

If, after the examination phase begins, the auditor believes that it is necessary to materially change the scope of the audit, this will be discussed with management of the entity being audited, recognizing that the PSC will make the final decisions.

The approach to debriefing entity management will be agreed upon prior to the end of the examination phase.

As issues arise during the audit, they will be discussed and resolved as quickly as possible.

- **Confidentiality**

The PSC and entities will respect the confidentiality of the PSC’s draft reports until the final audit report is issued.

The Audit Process

The following table shows the key points of involvement of entity management in each phase of the PSC audit.

PSC Auditors' Involvement	Deputy Heads' and Senior Managers' Involvement
<p>Audit Planning Phase</p> <p>The purpose of audit planning is to enable the audit team to develop an appropriate level of knowledge concerning the entity, the appointment process activity under examination and the issues facing them. This knowledge enables the audit team to develop an examination plan that will provide a basis for the orderly, efficient and cost-effective conduct of the audit.</p>	
<p>Send a letter advising the entity's deputy head that a PSC audit will be performed in that entity and that audit planning is about to begin. This letter will ask the deputy head to designate a person to serve as the principal contact with the PSC throughout the audit.</p>	<p>Distribute the letter to those in the entity who need to know.</p> <p>Advise the PSC of contact person.</p>
<p>Acquire a sound knowledge of the audit subject in order to develop the terms of reference and examination plan for the audit.</p>	<p>Meet with the auditors to discuss the proposed audit.</p> <p>Provide the audit team with the necessary information to enable it to understand the areas subject to audit.</p> <p>Provide comments on responsibility for the subject areas being audited and related risks, and management concerns.</p>
<p>Prepare the terms of reference for the audit, which includes the audit objectives, scope, criteria and approach, and provide it to the entity contact to coordinate the development of entity's comments.</p> <p>(Any unresolved disagreement on the audit criteria and management's responsibilities will be disclosed in the Audit Report, with appropriate explanation.)</p>	<p>Provide views on the audit objectives, approach, criteria and management's responsibility for the subject, preferably in writing.</p>

PSC Auditors' Involvement	Deputy Heads' and Senior Managers' Involvement
<p>Audit Examination Phase</p> <p>The purpose of the examination phase is to gather appropriate and sufficient evidence to conclude against objectives and to support all statements made in the Audit Report.</p>	
<p>Discuss significant issues with entity management, as they arise.</p> <p>(Audit teams would report action taken by the entity to resolve an issue where there is sufficient appropriate evidence that it is under way.)</p>	<p>Discuss the significant issues and, in particular, any action that is under way to resolve an issue.</p>
<p>Where required, obtain confirmation from entity management of accuracy of factual statements.</p>	<p>Examine all factual statements and either confirm their correctness to the auditors or, if the purported fact is in error, provide the auditors with the correct information and the appropriate supporting evidence.</p>
<p>Towards the end of the examination phase, brief the management of the entity on emerging findings.</p>	<p>Participate in the briefing.</p>
<p>Audit Reporting Phase</p> <p>The purpose of the reporting phase is to communicate the audit's findings, conclusions and recommendations clearly, precisely, persuasively and effectively.</p>	
<p>Send the draft report to the contact person for coordination of the development of the entity's response within the agreed-upon timelines.</p>	<p>Review the draft report and provide the PSC with a clear entity position on:</p> <ul style="list-style-type: none"> • the accuracy of the text; and • facts in dispute—accompanied by all supporting evidence in the entity's possession. <p>Deliver the response within the agreed-upon timeline (usually takes three to four weeks).</p>
<p>Discuss the issues raised in the entity's response and attempt to resolve them.</p>	<p>Discuss the issues raised in the entity's response with the auditors and attempt to resolve them. Those discussions should begin within agreed-upon timelines.</p>
<p>For any unresolved issues, the Vice-President, Audit Branch should meet with the deputy head or delegate of the entity to attempt to resolve them.</p>	<p>The deputy head or delegate should meet with the Vice-President, Audit Branch, to resolve outstanding issues.</p> <p>(The result will either be an agreement or at least a clear and shared understanding of the points on which there is agreement to disagree).</p>

PSC Auditors' Involvement	Deputy Heads' and Senior Managers' Involvement
<p>Revise the draft report to reflect all of the changes resulting from the discussions on the previous draft.</p> <p>Send the revised draft report to the Deputy Head or delegate for comments and official responses to the recommendations for corrective action.</p>	<p>Provide in writing the final comments of the deputy head or delegate, including formal responses to recommendations and any disagreements within the agreed-upon timeframes and the limits set out by the PSC (usually two to three weeks).</p>
<p>If needed, draft a management letter on findings which were not included in the audit report and forward it to the entity (deputy head or senior management) on a timely basis.</p>	<p>Review draft and provide comments to the PSC on a timely basis.</p>
<p>Audit Follow-up Phase (normally in the two years following an audit)</p> <p>The purpose of the follow-up phase is to report on the extent to which corrective action has taken place to resolve previously reported issues.</p>	
<p>Send a letter to the contact person requesting an update on the status of the action taken to implement the recommendations from prior audits.</p>	<p>Distribute the request to those who will provide the input on the status of implementation.</p> <p>Coordinate the input and send it to the PSC.</p> <p>Discuss the status with the auditors.</p>
<p>Inform the entity of the results.</p>	<p>Provide information to those who need to know.</p>

*Appendix C***Project Management – Key Milestones for the PSC Audit Report**

The PSC may publish its audit reports semi-annually (for example, in March and September) or annually with the PSC Annual Report. This requires a major effort by many groups and individuals in the PSC. Milestones, presented below, are scheduled to help audit directors general and managers to manage their projects, and to work with other groups. The entire audit process should be managed and overseen by the AMC to ensure that the delivery of the PSC Audit Report is in accordance with the Annual Audit Plan.

Milestone	Responsible Person	T minus dates* (in weeks)	Approximate Timing** for March Release	Approximate Timing*** for September Release
PLANNING				
Submit audit proposal to AMC	Director General	49	April	October
Summary Examination Plan	Director General	45	May	November
AAC meeting	VP/Director General	44	May	December
Submit summary examination plan to AMC	VP/Quality Reviewer	43	June	December
EXAMINATION				
Field work completed	Director General	26	September	April
Examination Report, including annotated outline	Director General	25	October	April
AAC meeting	VP/ Director General	24	October	April
Report author information session	Communications	23	October	April
President Briefing to discuss the main points of report	Communications VP/Director General	22	October	May
REPORTING				
Review draft main points with Communications	Director General / Communications	21	November	May
Internal draft – submit to AAC, Legal and President for review	Director General	20	November	May
Internal draft – submit for editing	Communications	19	November	May
External draft - transmit to department for response in four weeks	VP/ Director General	17	December	June
Submit revised external draft to edit/translation	Communications	12	January	July
Transmission draft approved by the President – to deputy head for sign-off in two weeks	VP/ Director General	10	January	July
Submit departmental response for edit	Communications	8	February	August
Obtain approval for publication from AMC and the President	VP	7	February	August
Obtain final approval to print	VP	6	February	August
COMMUNICATIONS				
Prepare draft news release with Communications	VP/ Director General	6	February	August
Prepare President's briefing notes	Director General / Communications	6	February	August
Pre-release briefing for President	Communications	4	March	September
Letter to GOE and other relevant standing committees	Communications	4	March	September
RELEASE				
Release audit report to GOE and other relevant standing committees	Communications	0	March	September
Issue news release	Communications	0	March	September
Distribution of report (paper and Web)	Communications	0	March	September
POST-RELEASE				
Submit accountability report to AMC	VP/ Director General	+2	April	October
Parliamentary hearings	Communications	As requested		

Legend:

AAC – Audit Advisory Committee

AMC – Audit Management Committee

GOE – Standing Committee on Government Operations and Estimates

* Target in weeks before release of Report, as explained in chart below

** Using March as the PSC Audit Report release date

*** Using September as the PSC Annual Report release date

March Countdown Chart	
Month in Report Cycle	Target Range in Weeks Before Release of Report
April	49 – 52
May	44 – 48
June	40 – 43
July	36 – 39
August	30 – 35
September	26 – 29
October	22 – 25
November	18 – 21
December	14 – 17
January	9 – 13
February	5 – 8
March	0 – 4

September Countdown Chart	
Month in Report Cycle	Target Range in Weeks Before Release of Report
October	49 – 52
November	45 – 48
December	40 – 44
January	36 – 39
February	32 – 35
March	27 – 31
April	23 – 26
May	19 – 22
June	15 – 18
July	9 – 14
August	4 – 8
September	0 – 4