

**Office of the Auditor General of Canada**

**Report on a Review of the  
Performance Audit Practice**

Practice Reviews Conducted in the 2011–12 Fiscal Year

**July 2012**

**Practice Review and Internal Audit**



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## Introduction

1. The Office of the Auditor General conducts independent audits that provide objective information, advice, and assurance to Parliament, territorial legislatures, and Canadians. The Office has several product lines, including performance audits, annual audits, and special examinations.
2. Performance audits examine, against established criteria, whether government programs are being managed with due regard for economy, efficiency, and environmental impact, and whether measures are in place to determine their effectiveness. The subject of the audit can be a government entity or activity (business line), a sectoral activity, or a government-wide functional area.
3. The Office follows the Canadian Institute of Chartered Accountants (CICA) assurance standards and Office policies and procedures to guide the conduct of its work. These are outlined in an audit manual, various other audit tools, and a quality management system for each product line. They guide auditors through a set of required steps to ensure that the audits are conducted according to professional standards and Office policies. There is a product leader at the assistant auditor general level for the performance audit product line, whose primary function is to provide leadership and oversight for the product line and to contribute to the quality of the individual audits.
4. The Practice Review and Internal Audit team conducts practice reviews of selected performance audits to assess their compliance with professional standards and Office policies. This work is done in accordance with the monitoring section of the CICA Handbook—Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (CSQC–1). It is also done in accordance with the Office's 2011–12 Practice Review and Internal Audit Plan, which was recommended by the Office's Audit Committee and approved by the Auditor General. The plan is based on systematic monitoring of the work of all audit principals in the Office on a cyclical basis.
5. This report summarizes the key observations related to the practice reviews of the selected performance audits.

## Overview

### Objective

6. The objective of practice reviews is to provide the Auditor General with assurance that

- the reviewed audits comply with professional auditing standards and applicable legislative and regulatory requirements,
- the reviewed audits were conducted with respect to our quality management system (QMS), and
- the resulting audit reports are supported and appropriate.

### Scope and methodology

7. We conducted practice reviews of four performance audits in the 2011–12 reporting period—one audit tabled in March 2011, one in June 2011, one in November 2011, and the last one in December 2011.

8. Our reviews included an examination of electronic (TeamMate) and paper audit files. We examined audit files related to the planning, examination, and reporting of the audits. We interviewed audit team members, quality reviewers, and other internal specialists, as appropriate.

### Quality management system elements and process controls reviewed

9. The Performance Audit Quality Management System is summarized in Appendix A. We focused our work on the selected elements and key process controls that we considered key or of high risk (Appendix B).

10. We also looked at how the quality reviewers carried out their responsibilities. Quality reviewers are management-level employees of the Office who are appointed to provide an objective evaluation, before the auditor's report is issued, of the significant judgments that the audit team made and the conclusions that it reached in formulating the audit report. The quality reviewer is an important element of the Office's quality control system and is involved in selected individual audits from initial planning decisions to the closing of the audit file.

## Rating system

11. We applied one of the following ratings to each selected QMS element of the individual performance audits under review:

- **Compliance.** Applicable auditing standards and Office policy requirements were met.
- **Compliance but needs improvement.** Improvements are necessary in some area(s) to fully comply with professional auditing standards and Office policies.
- **Non-compliance.** Major deficiencies exist; there is non-compliance with professional auditing standards and/or Office policies.

12. After completing each practice review, we assessed whether the audit conclusion was supported and appropriate.

13. This report presents the key observations and recommendations drawn from the 2011–12 performance audit practice reviews.

## Results of the Reviews

14. We found that all files reviewed had audit conclusions that were supported and appropriate.

### Compliance with the quality management system and process controls

15. Three of the four audit files had overall compliance, in all material respects, with the auditing standards and the Office's performance audit policies, as well as with each individual rating on the Quality Management System (QMS) elements and sub-elements reviewed.

16. One of the four audit files had overall compliance but was not in compliance with each of the individual elements. This audit file had individual ratings on the eight Quality Management System elements and sub-elements reviewed that included one rating of "compliance but needs improvement" and one rating of non-compliance. The area of non-compliance involved certain administrative procedures in the reporting phase of the audit.

## Opportunities for improvements

17. When the audit engagements we reviewed showed areas where practices could be improved, we discussed the opportunities for improvement with the responsible principals and assistant auditors general.

18. The following are common observations noted in this cycle of performance audit practice reviews. They represent opportunities for improvement in the performance audit practice more generally.

19. **Leadership and supervision.** High-risk areas in draft reports were not always reviewed and approved by senior management on a timely basis in the TeamMate file (that is, prior to the release of the PX and DM drafts). Some key supporting documents serving as substantiation were reviewed outside TeamMate, and in one case they were not all included in the audit file. The Office's Quality Management System requires that audit senior management (AAG and PX) review and sign off on key audit documents, including the draft reports and their substantiation, in a timely manner in TeamMate in order to mitigate audit risk prior to issuing the drafts to the audited entities.

20. **Audit file structure.** Employing a consistent audit file structure for all phases of the audit, and for each line of enquiry, would provide a clarity and logic throughout the audit that would support oversight and review of file quality. When practical, having documents appear once in the audit file, preferably in electronic format with use of hyperlinks, would minimize the audit file size and support oversight and review of file quality.

## Notable Practices

21. In the files we reviewed this year, we observed several practices that we encourage audit teams to note.

22. **Independence.** Assurance standards require that auditors be independent of the entity they are auditing. Accordingly, threats to independence—and the safeguards used to reduce such threats to an acceptable level—must be assessed and documented. The Office has specific policies and procedures designed to prevent independence infractions. We found that, in the audit files reviewed, the assessments of independence had improved considerably and the files were fully compliant with Office policy and auditing standards.

23. **Consultation with the internal specialist in quantitative analysis.** The Office internal specialist in quantitative analysis was consulted early in the audits, when applicable. For example, during the planning phase of one audit, the team included the specialist in meetings with the entity official responsible for statistics.



This helped determine the sampling approach. The specialist was also consulted in subsequent audit phases.

**24.** Spreadsheets containing results of sampled items were sent to the entities for fact verification. This appears to have been an efficient process to obtain feedback from entities and ensure that the analysis and interpretation of data were accurate.

**25.** The use of a pilot group of entity representatives to validate an electronic survey questionnaire prior to its release contributed to an effective survey approach for collecting information with the entity.

**26. Joint clearance meetings.** The joint clearance meetings with audited entities that work interdependently to carry out their legislated responsibilities were beneficial, informative, and efficient, because they allowed entities to hear all views in response to the audit.

**27. Quality review.** As noted in previous years, the quality review is an important element of quality assurance in the Office. In the files we looked at this year, we noted improvement in the timeliness of the reviews, in the comments provided to audit teams, and in the team's action on the comments provided by the quality reviewer.

## Conclusion

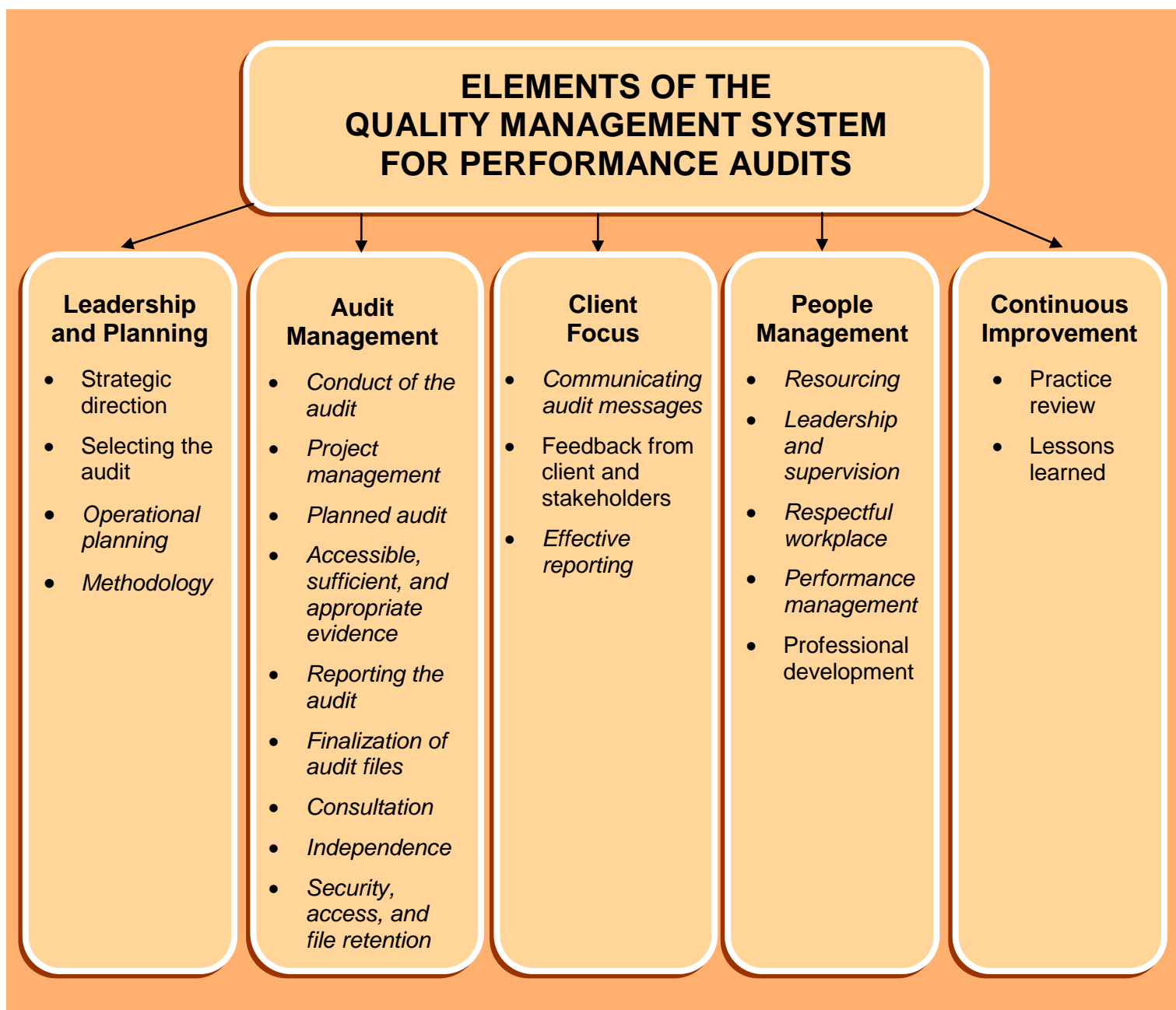
**28.** We conclude that of the four performance audits we reviewed, three have overall compliance, in all material respects, with professional auditing standards, applicable legislative and regulatory requirements, and our Quality Management System.

**29.** One audit has a rating of overall compliance, but needs improvement with professional auditing standards, applicable legislative and regulatory requirements, and our Quality Management System.

**30.** All audits issued reports that are supported and appropriate.

**31.** There are no recommendations being made, because there is no indication of significant practice-wide deficiencies that need to be addressed. However, we draw attention to two areas for improvement, particularly one concerning leadership and supervision.

## Appendix A—Quality Management System Elements for Performance Audits



The elements italicized in the table are included in one or many elements of the Quality Management System elements or process controls described in Appendix B.

## Appendix B—Quality Management System Elements and Process Controls Reviewed

Our review covers the following quality management system elements and key process controls:

**Conduct of the audit.** As part of the audit work for each of the files we examined, we reviewed the following process controls:

- **Planning.** We determined whether the work was adequately planned and whether issues were selected on the basis of risk, their significance and auditability, and their relevance to the Office's mandate. As well, we determined whether suitable criteria for evaluating the subject matter were identified and developed. Attention was given to the development and application of audit logic matrices and whether planned audit work was carried through into examination and reported.
- **Examination.** We looked at the substantiation files and other audit files to determine whether sufficient and appropriate evidence was obtained to provide a reasonable basis to support the conclusion in each report. We reviewed each report for secondary evidence information and reached a conclusion on the adequacy of the team's rationale for including such information.
- **Reporting.** We reviewed each report to determine whether it addressed high-risk areas and the associated criteria and whether it was relevant, coherent, clear, and credible. We also determined whether oversight of the reports effectively ensured consistency with the Office's mandate and principles and with past corporate decisions.

**Finalization of audit files.** We determined if audit files were closed within 60 days of final approval of each audit report, as required by CICA assurance standards and Office practice requirements.

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

**Quality review.** We determined whether the quality reviewer carried out an objective and timely evaluation of

- the significant judgments made by the team,
- the conclusions reached in supporting the auditor's report, and
- other significant matters that have come to the attention of the quality reviewer during his or her review.

We determined whether the work of the quality reviewer was adequately documented, and whether the audit team took appropriate and timely action in response to the advice received from the quality reviewer.

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

**Independence.** We determined whether all individuals performing audit work, including specialists, had been independent in carrying out their responsibilities and in forming their conclusions.

**Leadership and supervision.** We determined whether individuals working on the audit received an appropriate level of leadership and direction and that

- adequate supervision of all individuals, including specialists, was provided to ensure that audits were properly carried out; and
- all audit team members were encouraged to perform to their potential.