

Annual Report on the Review of the Direct Engagements Completed in the 2020–21 Fiscal Year

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Practice Review and Internal Audit



Office of the
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Introduction

The Practice Review and Internal Audit team (PRIA) helps the Office of the Auditor General of Canada (OAG) to meet its obligation under the Chartered Professional Accountants of Canada's Canadian Standard on Quality Control 1. The team does this by conducting inspection activities to determine the extent to which engagement leaders are complying with Canadian auditing standards, OAG policies, and applicable laws and regulations when conducting their audits. The team also ensures that audit reports are supported and appropriate.

Objective

The practice review's objective is to provide the Auditor General of Canada with assurance that

- direct engagements (performance audits and special examinations) comply with Canadian standards on assurance engagements for direct engagements, OAG policies, and applicable laws and regulations
- audit reports are supported and appropriate

Scope

This report summarizes the reportable observations related to the practice reviews of 6 direct engagements (5 performance audits and 1 special examination) completed in the 2020–21 fiscal year.

Rating

Each audit file reviewed is rated as one of the following:

- **Compliant.** The audit file is compliant in all significant respects with Canadian standards on assurance engagements for direct engagements, OAG policies, and applicable laws and regulations. Some areas of improvement may have been noted.
- **Non-compliant.** The audit file does not comply with Canadian standards on assurance engagements for direct engagements, OAG policies, or applicable laws and regulations. Significant deficiencies exist and major improvements are necessary.

After completing each review, we also conclude on whether the audit report is supported and appropriate.

Results of the Reviews

This report covers the first cycle of direct engagements that were completed remotely because of the COVID-19 pandemic. It also includes the first cycle of performance audits that were completed pursuant to the motion of the House of Commons to audit COVID related spending.

The most common and/or significant observations that came out of this review cycle involve:

- the preparation and review of key documentation before the date of the audit report
- the documentation of audit conclusions against audit criteria and overall;
- the documentation of consultations with internal specialist; and
- the identification of a single engagement leader responsible for the overall quality of the engagement.

Conclusion

Of the 6 direct engagement files reviewed, we determined that all 6 audit reports were supported and appropriate.

We rated 5 of the files as compliant in all significant respects with Canadian standards on assurance engagements for direct engagements, OAG policies, and applicable laws and regulations. We rated 1 file as non-compliant mainly due to deficiencies in meeting the requirements for the preparation and review of file documentation, including the documenting of significant judgements.

We determined that there was no single root cause for the deficiencies identified in the non-compliant file, but rather a combination of several which included the following key elements: the very compressed timelines for the audit; the limited audit experience of several team members; the limited capacity of the auditees during the height of the pandemic; and the sharing of responsibilities without identifying a single accountable individual as the engagement leader.

While the context of this specific audit and results of its review are not representative of the population of reviews we performed for this cycle, we are mindful that a similar set of circumstances could reoccur given the Office's new realities which may include, among others, shortened audit timelines and resourcing challenges. As a result, discussions are underway with the OAG's system of quality control team to determine if revisions to internal controls at the firm level could help to address potential emerging risks to ensure that the office continues to table relevant, timely and quality reports, while ensuring that auditing

standards are respected. This could include examining if additional risk-based mitigation measures, tailored to address the specific audit risks that have been identified at the firm level, should be considered when faced with similar or newly emerging audit risks in the future. Examples of such measures could include increased oversight by an Assistant Auditor General or an enhanced quality reviewer role.

Recommendations

No formal recommendations are being issued at this time. However, as noted above, we are supporting the work of the system of quality control team to determine if revisions to internal controls at the firm level are warranted. At the engagement level, we will discuss our observations during lessons learned sessions with the performance audit practice and with the methodology team to highlight the areas for improvement that we noted.