Office of the
Auditor General
of Canada

Value-for-Money Audit Manual

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

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

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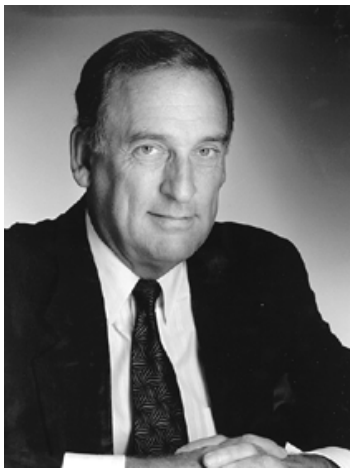


Foreword

The Value-for-Money (VFM) Audit Manual is one of three product-line manuals resulting from the most recent update of the Comprehensive Auditing Manual (CAM). The purpose of the update was to:

- delayer the CAM to recognize the unique requirements of each product-line;
- clarify responsibilities and increase delegation to Assistant Auditors General and teams;
- clearly differentiate between required practice and areas where professional judgment can be exercised; and
- take advantage of the Office's electronic tools (Intranet) while moving away from paper-based guidance.

This manual covers all value-for-money audits, including those carried out by the Commissioner of the Environment and Sustainable Development. The other two are the Annual Audit and Special Examinations manuals. Each manual is supported by functional guidance and other procedures and tools specific to the product-line. The delayered CAM will henceforth consist of these three product-manuals together with the Office’s Strategic Framework and Code of Professional Conduct.

The VFM Audit Manual has been built around a set of value-for-money standards that auditors must meet to produce a high-quality audit. Each standard in turn is supported by practice expectations that auditors should usually comply with in order to meet the standards. The Manual has a strong quality orientation based on current thinking and practice in first-class professional organizations. It provides a clearer picture of the standard of quality expected from staff and encourages greater professional judgment.

The VFM Audit Manual is the product of extensive consultations with the Executive Committee, Practice Development Committee, functional responsibility leaders, and practitioners in the Office, as well as external consultants.

The Manual is expected to be a focal point for the continuous improvement of our value-for-money practice. Our knowledge of and experience with value-for-money auditing continue to expand and evolve; so will this Manual. If you wish to suggest additional issues that should be covered, or to offer any other comments or suggestions for improving the Manual, you may contact the Office's Professional Practices and Review Group.

L. Denis Desautels, FCA
Auditor General of Canada
29 January 1999

Introduction

Purpose of the Manual

1. The Office of the Auditor General of Canada currently has four product-lines: annual audits of the financial statements of the Government of Canada, Crown corporations and other entities (federal, territoiral, Canadian and international); Special Examinations of Crown corporations; value-for-money (VFM) audits and studies of departments and agencies; and environment and sustainable development audits and studies. The Practice Development Committee of the Office works with staff to develop and approve policies, standards and expected practices for each product-line, with the objective of ensuring that these standards are maintained at the highest professional level.

2. The Office's Comprehensive Auditing Manual (CAM) has been updated and delayered. The delayered CAM, portrayed in Figure 1, will henceforth consist of three product-line manuals, together with the Office's Strategic Framework and Code of Professional Conduct, and will be electronically linked, as appropriate, to other Office policies located on our Intranet site.

3. This manual sets out the auditing standards that govern the conduct of VFM audits and studies, including environmental and sustainable development audits and studies, and provides guidance to auditors in complying with the standards. The purpose of the manual is to:

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

How to use the Manual

4. The standards and guidance contained in this Manual embrace the VFM standards and the Standards for Assurance Engagements recommended by the Auditing Standards Board (AuSB) of the Canadian Institute of Chartered Accountants.

5. VFM auditing standards are written as “must” statements and are to be complied with. Disagreements with the standards contained in the Manual or inability to comply with any of them should be brought to the attention of the Report Steering Committee immediately.

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

Organization of the Manual

7. The manual consists of four parts.

8. **Part One** contains three introductory chapters that provide the context for VFM auditing.

> **Chapter 1** sets out the general standards, defines VFM auditing, describes the mandate, and links VFM auditing and accountability.
>
> **Chapter 2** sets out key factors in discharging the mandate.
>
> **Chapter 3** sets out the standards of audit conduct and practice expectations to meet them.

9. **Part Two** deals with the essential features of a VFM audit. It has three chapters.

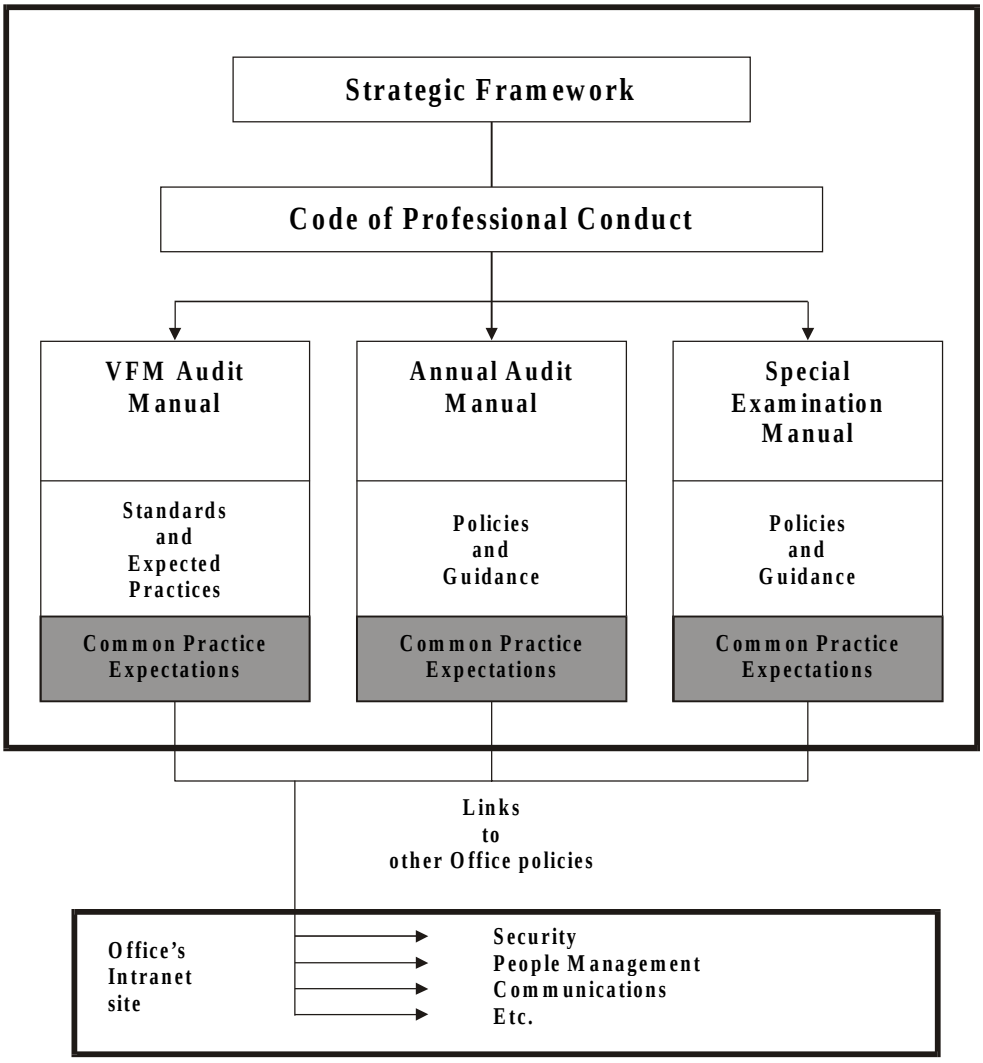
> **Chapter 4** sets out the audit planning process, audit examination standards, and practice expectations to meet them.
>
> **Chapter 5** sets out the reporting standards and practice expectations to meet them.
>
> **Chapter 6** sets out the requirements for a follow-up.

10. **Part Three** sets out the practice expectations which are common to all product-lines of the Office.

11. **Part Four** summarizes the key features of the Office's Quality Management System for VFM audits.

Figure 1

Updated CAM Framework



1 General Standards, Definition, Mandate, Accountability, Access to Information

General Standards

- **The Code of Professional Conduct and other Office policies must be adhered to in all Office activities.**
- **All value-for-money (VFM) audits must be completed in accordance with the Office's VFM audit standards.**

Definition of VFM Auditing

1.1 A VFM audit is a systematic, purposeful, organized and objective examination of government activities. It provides Parliament with an assessment on the performance of these activities; with information, observations and recommendations designed to promote answerable, honest and productive government; and encourages accountability and best practices.

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

1.3 A high-quality VFM audit is one that is carried out in compliance with the standards contained in this manual (see Appendix 1), and, in particular, responds to the full range of obligations in our mandate, adds value, makes an important difference for Canadians, and is objective, timely and cost-effective.

Mandate

1.4 The *Auditor General Act* of 1977 provides the original legal basis for the Auditor General to carry out VFM audits. It was amended in 1995 to include responsibilities related to environmental matters. Section 7 (2) of the Act requires the Auditor General to “call attention to anything that he considers to be of

significance and of a nature that should be brought to the attention of the House of Commons, including cases in which he has observed that:

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

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

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

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

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

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

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

Relationship between the audit function and government policy

Under revision

1.6 It is generally understood, however, that audits do not examine the merits of the government's political policy, as those are matters for the government to present to Parliament for review and debate.

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

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

VFM auditing and accountability

1.9 Audit is superimposed on an accountability framework. A traditional definition of accountability is the obligation to answer for a responsibility

conferred. This definition often is interpreted as implying two distinct and often unequal partners: one who confers and the other who is obliged to answer. In so doing, it does not address well several realities in today's public management. These include:

- the emergence of alternative delivery approaches, such as arrangements between the federal and provincial governments, where responsibilities may not be conferred from a senior party to a junior one, but agreements nonetheless assume accounting for results;
- the call for a much increased focus on performance-based management and results in the public sector; and
- the importance of transparency as an essential feature of public sector accountability.

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

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

1.12 Parliament has three fundamental roles:

- to legislate;
- to appropriate funds; and
- to scrutinize government operations.

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

1.14 The Auditor General's role, superimposed on this relationship, is to assist Parliament in its scrutiny of the government's performance. One way it fulfils this role is by conducting VFM audits and examinations. The Office defines its mission as follows:

We conduct independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

Access to information to fulfil audit responsibilities

1.15 Sub-section 13(1) of the *Auditor General Act* and the *Financial Administration Act* entitle the Auditor General "to free access at all convenient times to information" needed in order to report. He is also entitled to "receive from members of the public service such information, reports and explanations, as he deems necessary". The nature and type of information needed to fulfil his responsibilities is decided by the Auditor General. Further guidance on matters of access is provided under Access to information in Chapter 7.

2 *Key Factors in Discharging the VFM Audit Mandate*

Selecting the right area for audit

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

2.2 The Office's Strategic Framework sets out a number of principles that guide us in achieving the desired results of our work. The stated result areas provide an important focus when allocating resources and deciding what to audit. These areas are:

- making a difference for Canadians by promoting answerable, honest and productive government;
- focussing on significant issues to achieve a positive and measurable impact for the benefit of Canadians;
- promoting accountability and best practices in government operations; and
- promoting value for money and compliance with authorities in the use of funds raised from taxpayers.

2.3 The planning process involves several layers of activity that interact in a complex manner before an audit begins. These include the identification of Office-wide policies that apply to all audits; the selection of entities, functional areas and sectors to be examined over time; and the choice of programs or activities to be examined. All stages are driven by the same three criteria: the significance of the area; relevance of proposed audit activities to the Office's mandate; and auditability.

2.4 Significance includes the notions of materiality, importance to the achievement of government results, risk of difficulties, and current parliamentary or public interest.

2.5 Relevance addresses whether or not the area being considered falls within the mandate of the Office. Examples of areas of concern would be political policy decisions, or the administration of programs delivered by other levels of government.

2.6 Auditability defines whether or not the area is amenable to audit.

The Office planning process

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

VFM audit priorities

- The VFM audit priorities provide a corporate focus on current and future audit priorities and major audit themes.
- The priorities are based on a broad overview of the government's activities designed to identify emerging issues; major changes in programs, administrative systems, and spending levels; opportunities for improvement; risks; and current concerns of parliamentarians and Canadians.
- Information for analysis is sought from members of Parliament; deputy ministers and their senior officials; eminent leaders from business, the consulting and accounting professions; the academic world; non-government and environmental organizations; and other levels of government. Audit teams input their knowledge of major developments in their entities and functional areas.

Entity, sector and functional area strategy

- The entity, sector and functional area strategy proposes an audit strategy, covering a period of five years, for all departments, agencies and functional areas. It is designed to ensure that all significant areas of the government that fall under the mandate are considered for audit.
- The strategy contains a prioritized schedule of proposed audits, identifies areas where a sectoral approach is needed, and provides preliminary audit objectives, estimates of resource requirements, an ideal frequency of audit, proposals for current work and high-risk areas not recently audited or scheduled for audit.
- The strategy identifies areas where co-ordination will be needed with audits of other entities, sectors or functional areas.
- Information for the plan is based on the audit teams cumulative knowledge of the entity or function. Periodic reviews are carried out, in order to ensure that the knowledge is current.

- Input is obtained from officials and documentation in the government bodies, and from consultations with the audit advisory committee, the Assistant Auditor General (AAG), the Commissioner of the Environment and Sustainable Development (CESD), functional responsibility leaders (FRLs), and other colleagues.

AAG group plans

- The AAG/CESD group plans aggregate the long-range strategies and rationalize the group workload, audit coverage and resources. They also set out preliminary proposals for upcoming year audits.
- Current proposals provide background information, preliminary audit objectives, and anticipated benefits from the audits in terms of added value, parliamentary interest, estimated cost and timing of audits.
- Each plan is based primarily on the priorities and goals for the Office, resources available and the long-range entity and functional strategies.

Senior management resource meeting

- The focus of the senior management resource meeting is to rationalize the proposed audits with the resources available and workload on an Office-wide basis, to achieve a balanced VFM audit program and consensus for the current year's program.
- Management considers the relationship and interactions of resources and anticipated results or achievements.
- The review is based primarily on AAG/CESD group plans and entity, sector and functional area strategies.

Report Steering Committee

The Committee's responsibilities are to:

- review and approve audit strategies for priority areas;
- establish a reporting strategy over time by scheduling the number of chapters, the length of the chapters and by co-ordinating and grouping report themes;
- approve the implementation of individual audits, track progress, and provide a forum to discuss concerns; and
- reconcile interfaces between audits.

Types of VFM audits

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

- **entity or program audits**, which provide a substantive review of the whole or part of the operations of a department or agency;
- **government-wide audits**, which focus on government-wide issues or functional areas, such as human resource management, in a number of departments selected by the Office;
- **sectoral audits**, which focus on program areas delivered by a number of entities, for example, search and rescue operations;
- **audit notes**, which are single-issue audit mini-chapters, often a by-product of other audits; and
- **follow-up**, which reports on government actions in response to previous recommendations and observations of the Office or the parliamentary committees.

Roles and responsibilities of the key players

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

2.10 The final audit chapter is the result of the joint effort of all these individuals. This section briefly sets out the roles and responsibilities for a typical audit engagement of the audit Principal (team leader), team directors, team members, the AAG, the second AAG and the Deputy Auditor General (DAG), Audit Operations.

The audit Principal

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

- maintaining an adequate team knowledge of the organization(s) or function;
- maintaining effective departmental relations;
- managing all aspects of the audits addressing her/his entities, and co-ordinating with other teams on audits affecting their entities;
- leading the audit team, delegating responsibilities, monitoring progress and reviewing performance;
- managing budgets and timely completion of audits;
- seeking counsel and expert advice throughout the audit;
- reviewing draft audit reports and chapters;
- advising the AAG/CESD and the Report Steering Committee (RSC) on progress of audits and emerging problems;

- involving the AAG/CESD the second AAG and the audit advisory committee on all important audit decisions;
- providing assurance to the AAG/CESD on audit quality;
- ensuring compliance with all VFM audit standards; and
- recommending that the Principal's draft (and Transmission draft for environmental audits) be forwarded to the entity by signing the Review Checklist.

Directors

2.12 Depending on their capabilities and experience, directors are delegated by the Principal responsible for managing individual audits. Their responsibilities may include:

- initiating the audit planning process and developing detailed audit plans;
- determining audit objectives, identifying entity components significant to the overall audit objectives, defining an audit approach, determining criteria and identifying significant materiality and overall audit risks;
- carrying out overviews, surveys and audit examinations;
- preparing overview and survey reports and chapter drafts;
- preparing briefing packages on the audit for advisory committees, the RSC, the Auditor General and others, as well as preparing accountability reports, press releases, and chapter communications strategy;
- supervising the work of auditors and other team members; and
- supervising the preparation of audit files, substantiation binders, and accountability and other documents.

Team members

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

- delivering quality products;
- being alert to possible non-compliance with standards and practice expectations;
- identifying other audit opportunities; and
- providing continuous improvement feedback on the Office’s Quality Management System (QMS).

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

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

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

- rationalizing Group workload and resources;
- being involved in major audit decisions on entity relations, scope of audit, access problems, complex and contentious issues, reporting strategy, reviewing and challenging the report chapter and clearing the report with senior entity officials;
- communicating expectations vis-à-vis quantification, and reviewing survey plans to ensure this is addressed;
- seeking the advice and input of the second AAG assigned to audits within her/his Group;
- providing signoff that any advice received from the second AAG was dealt with in a mutually satisfactory manner;
- chairing audit advisory committees;
- providing assurance to the Auditor General and the DAG, Audit Operations on audit quality;
- ensuring that all VFM audit standards are followed; and
- approving that the Principal's draft be forwarded to the entity and recommending that the Transmission draft be forwarded to the entity by signing the Review Checklist. The CESD is responsible for approving that both the Principal's Draft and the Transmission Draft be forwarded to the entity).

Second AAG

2.15 A second AAG is named for each VFM audit. S/he provides advice to the line AAG on the following risk areas:

- whether the audit will make a difference, is timely, and (after the audit is completed) was carried out in an objective manner;
- appropriateness of the audit objectives, scope, issues being addressed, and criteria used;
- appropriateness of the observations, conclusions and recommendations;
- adequacy of consultations with entities, FRLs and advisors; and
- compliance of chapter with reporting standards.

2.16 In his/her role, the second AAG:

- provides review level assurance to the DAG, Audit Operations that the above-noted risks have been properly addressed;
- deals primarily with the line AAG and would not normally need access to team members, audit files or departmental staff;
- is available throughout the course of the audit;
- is an observer (but not a member) of the audit advisory committee, and is an off-line advisor to the line AAG; and
- devotes between 20 and 50 hours to these responsibilities for each audit, with an expected average of 40 hours.

Deputy Auditors General, Audit Operations and Corporate Services

2.17 The Deputy Auditors General (DAGs) responsible for Audit Operations and Corporate Services serve as members on the Audit Advisory Committees. They ensure, on behalf of the Auditor General, that the quality of work meets the standards of the Office. The Advisory Committee DAG reviews all chapters prior to publication to ensure that the messages they contain are consistent with previous Office positions and to assess risks and special interests associated with them.

2.18 The DAG of Audit Operations reviews the Review Checklist for VFM audits and studies prepared by the Principal and reviewed by the line AAG. S/He approves that the Transmission draft be forwarded to the entity and jointly, with the DAG, Corporate Services, recommends publication of the chapter in the Report of the Auditor General by signing the Review Checklist.

2.19 The CESD performs a similar function for environmental audits and studies:

- reviews the Review Checklist for environmental audits and studies prepared by the Principal;
- approves that the Transmission draft be forwarded to the entity; and
- with the DAG, Corporate Services and Audit Operations, recommends publication of the Report of the Commissioner of the Environment and Sustainable Development.

2.20 The Deputy Auditor General, Corporate Services jointly, with the DAG, Audit Operations, recommends publication of the chapter in the reports of the Auditor General and Commissioner by signing the Review Checklist.

3 Audit Conduct Standards

Due care

The audit team must exercise due care.

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

Objectivity and Independence

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

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

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

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

Competence of the audit team

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

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

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

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

3.8 The audit team ***should*** have:

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

3.9 The audit team ***should*** consult with functional responsibility leaders (FRLs) and other support groups in the Office to obtain expert advice, where necessary, as well as with FRLs when attempting to identify persons with appropriate skills to work in specialized areas of the audit.

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

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

Supervision

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

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

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

Entity management's input to the audit

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

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

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

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

- planning the audit to obtain views on the critical success factors for the activity being audited, sources of criteria, risks, management concerns, and other audits or studies carried out in the area;
- finalizing the audit plan to obtain views on the approach and the criteria selected for the examination phase;
- developing findings to agree on the facts, or to obtain alternative sources of evidence;
- developing recommendations to obtain management's views on the best ways to correct the problem;
- obtaining agreement on the facts, observations, issues, and recommendations contained in the audit chapter, or to point out any disagreements; and
- finalizing the draft chapter to obtain the deputy head's comments and planned departmental actions to correct any deficiencies, and any disagreement with the report.

Consultation and advice

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

3.16 VFM audits are often complex undertakings requiring a wide range of skills, expertise and experience to be completed cost-effectively. As noted throughout this manual, considerable judgment is required at all stages of the audit. The requirement to have an Audit Advisory Committee, a second AAG named to each audit, and FRLs and support groups in the Office ensures that appropriate advice and assistance are available to the audit teams. Audit teams ***should*** consult with the AAG, the Audit Advisory Committee, subject matter specialists, and other support groups, as appropriate, on critical decisions made during the audit, and also hold an informal brainstorming internal methodology meeting during the planning process to obtain advice and guidance before finalizing the audit plan.

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

The Audit Advisory Committee

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

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

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

3.20 The role of the committee is to:

- advise on planned coverage, matters of potential significance and audit approach in the early stages of the audit;
- provide expert counsel on the significance of issues;
- review the avenues for quantification being pursued and whether they will be achieved;
- provide independent review, challenge and counsel at the critical control points of the audit; and
- advise on whether the report "message is right" and the issues are significant, and on the tone, fairness and reasonableness of the presentation.

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

Functional responsibility leaders (FRLs)

3.22 The Office has established FRLs for subject matter areas and in areas of audit specialization. The FRLs are expected to maintain:

- their personal expertise in the subject matter area;
- current knowledge of policies and developments in the government in this area;
- a database of outside consultants with appropriate skills; and
- the latest methodologies for auditing in the functional area.

3.23 Audit teams consult appropriate FRLs to seek their advice on scoping decisions, methodology, and contracting for persons with specialized skills. The FRLs review the portions of audit reports and draft chapters related to their area

of concern and advise on the consistency of observations and recommendations with previous Office positions.

Legal Services

3.24 Audit teams seek advice from Legal Services on potential legal issues arising during the audit, possible recommendations to change legislation, engagement of outside legal counsel, mandate and third party references in the audit report. Further guidance is provided under Consultation with Legal Services in Chapter 7.

Regional offices

3.25 Audit teams consult with and seek the advice of the regional offices early in the planning stage when the audit has significant regional implications. Further guidance is provided under Co-ordination with Regional Offices in Chapter 7.

Second AAG

3.26 A second AAG is named to each VFM audit. S/he acts as an advisor to the line AAG/CESD and is responsible for providing review level assurance to the DAG, Audit Operations, on the quality of the report. (The role of the second AAG is explained in more detail in Chapter 2 under Roles and Responsibilities.)

Other support groups

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

Documentation

The audit team must maintain appropriate documentation and files.

3.28 Audit working papers and files are used to document key audit decisions and work. Audit documentation is relevant, complete and understandable, and structured for easy access.

3.29 Well-organized and complete working papers are of critical importance when reviewing findings with management, briefing the Auditor General, providing support at Public Accounts Committee hearings, answering subsequent queries from the client and others, and planning future assignments.

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

- project approvals resulting from the Office planning process;

- overview and preliminary survey reports;
- Report Steering Committee decisions;
- management's views on the criteria and other elements of the audit;
- audit programs specifying the work carried out;
- comments and advice from advisors and FRLs;
- post-audit signoffs;
- significant correspondence with departmental management; and
- management's comments on the project reports and draft chapters and steps taken to resolve any differences.

3.31 The audit team ***should*** prepare substantiation binders that contain audit evidence most pertinent to the detailed support of the report content. These are to be carefully indexed and cross-referenced to supporting details. By convention and practice, all working papers are confidential documents belonging to the Office. Audited organizations, Parliament and the public do not have automatic right of access to working papers. All requests for working papers from the media or public ***should*** be forwarded to the FRL for Access to Information.

Communications with Parliament and others

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

3.32 The primary means of communicating audit results is through the reports of the Auditor General. The reporting standards and related guidance for VFM audits are covered in depth in Chapter 5.

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

3.34 The audit AAG/CESD, Principal or team members may be called upon to communicate audit findings to members of Parliament. Further guidance is provided under External Communications in Chapter 7.

4 *The VFM Audit Planning Process and Audit Examination Standards*

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

- what and how much to audit;
- what audit approaches, methodology and technology to employ to assess performance; and
- what staff skills, disciplines and experience to assign to the audit.

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

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

4.4 **Figure 2** illustrates the approach.

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

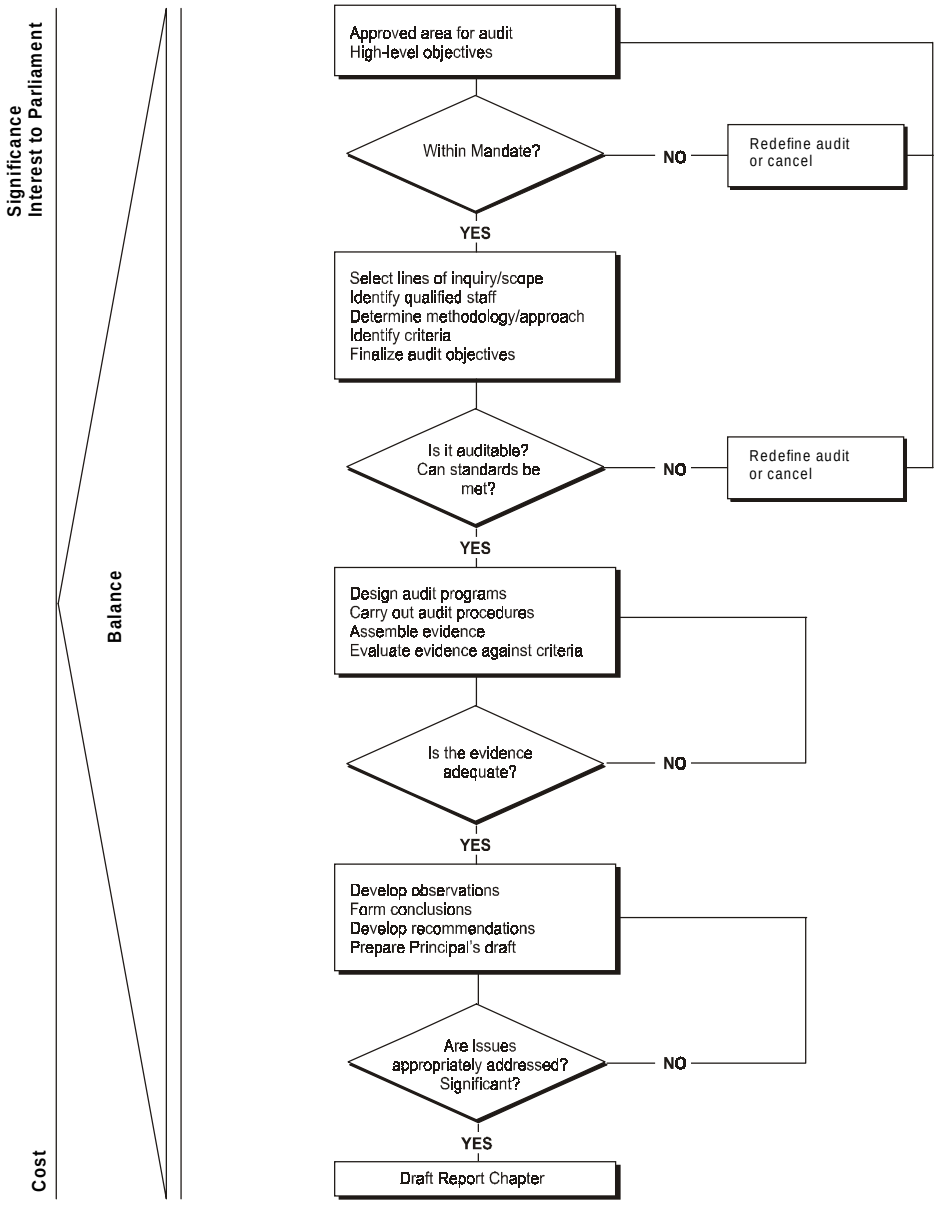
4.6 The following general characteristics, therefore, summarize the basic approach:

- professional judgment and individual initiative;
- consultation at the key decision points;

- an iterative process to maintain a focus on matters of significance and interest to Parliament;
- staff and audit methodology tailored to reflect the characteristics of the entity or functional area; and
- audit costs kept in balance with the significance of the issues being examined and their interest for parliamentarians.

Figure 2

Basic Performance Audit Approach



Planning the VFM audit

4.7 Prior to starting field work, a process of setting priorities, developing strategic and long-range plans, submitting audit proposals, rationalizing resources and assessing anticipated audit worth has taken place (as described in Part One of the manual). This process has resulted in the approval to begin an audit, a broadly defined audit scope, a preliminary audit objective and sufficient resources to begin the audit.

4.8 **Figure 3** provides a summary of the important factors considered at the various stages of the planning process.

Figure 3

Entity, Sector, Functional Area Strategy	AAG/CESD/ DAG Resource Meeting	Overview	Survey	Report Steering Committee	
X	X	X	X	X	Entity (organization, activity, sector, function)
X	X	X	X	X	Link to OAG priorities
X	X	X	X	X	Cost
X	X	X	X	X	Timing
X	X	X	X	X	Objectives
	X	X	X	X	Relationship to other audits
		X	X	X	Scope (significance, relevance, auditability)
		X	X		Team skills
		X	X		Functional responsibility leaders to contact
			X	X	Matters of significance/Issues to be reported
			X		Criteria
			X		Exam methodology

The overview stage: understanding the subject of the audit

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

- significant legislative authorities;
- organizational arrangements;
- the environment in which the entity operates;
- key personnel;
- spending levels and revenues;
- the entity's clients;
- the objective, mission and expected results;
- major operations, including in the field;
- the accountability arrangements;
- the major control systems;
- major risks facing the entity; and
- prior deficiencies/known weaknesses.

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

4.11 This knowledge provides the basis for describing the entity, making initial scoping decisions and defining lines of inquiry. It is also used to determine which FRLs to consult.

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

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

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

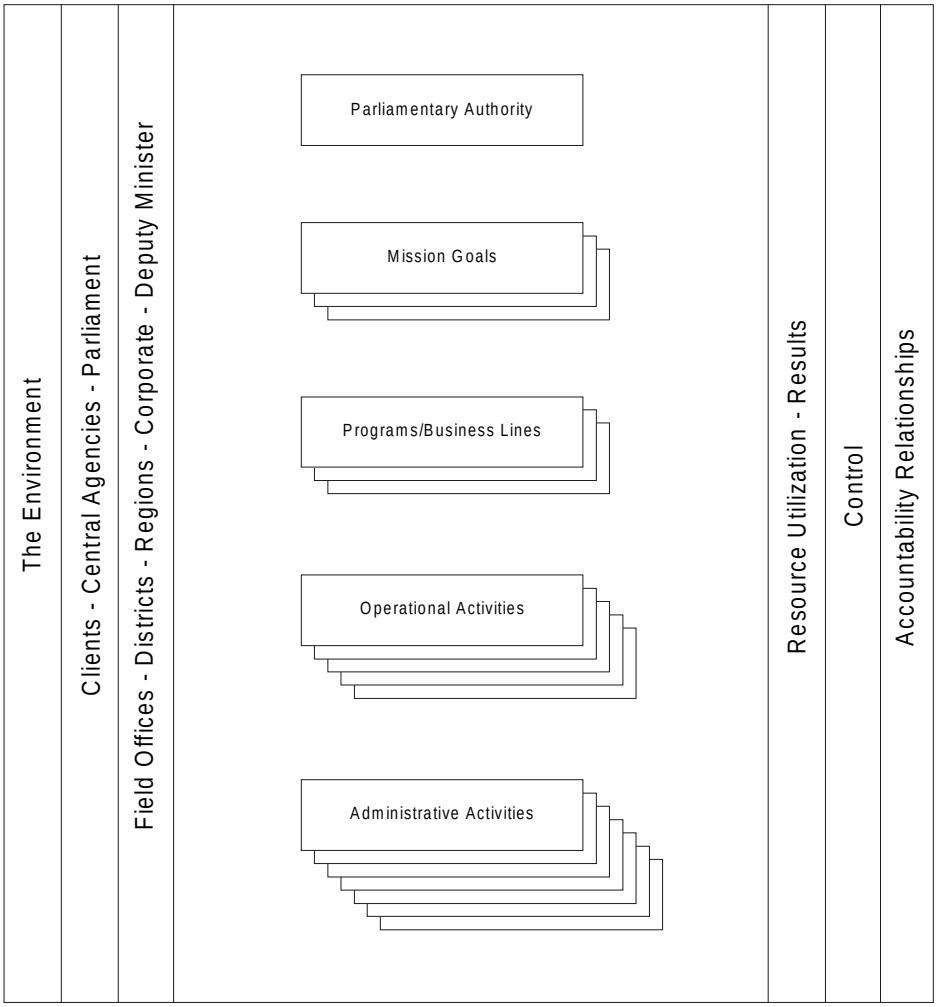
The survey stage

4.15 The purpose of the survey is to develop an audit plan that will provide a basis for the orderly, efficient and cost-effective conduct of the audit. It is prepared by the audit Principal, approved by the AAG/CESD and reviewed and challenged by the Audit Advisory Committee and FRLs, as appropriate.

4.16 The survey is a broad-based appraisal of the operations subject to audit, without carrying out detailed verification. The auditors gather information in order to fine-tune initial decisions about scope, cost, timing and skills, and to propose audit objectives, areas for in-depth review, criteria, and examination approach.

Figure 4

Planning the Audit - Understanding the Entity



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

- interviews with management;
- review of authorities, policies, directives, Cabinet documents, etc.;
- review of entity's Performance Report and Report on Plans and Priorities;
- review of entity's Internet site;
- review of management and accountability reports;
- review of result commitments;
- observation of facilities;
- walk through of major systems and control procedures;
- analysis of the relationship between resource utilization and results;
- assessment of risks;
- consultation with advisors and outside organizations to identify best practices and opportunities for improvement;
- previous audits and studies and audits conducted by others;
- survey of the use of technology; and
- review of spending trends.

4.18 The time spent at the survey stage of the audit will usually result in a more organized and cost-effective audit. There is no universal approach to ensure effective decision making during this stage. The audit Principal and the team need to develop a thorough understanding of the audit subject, and exercise significant judgment. The resulting audit plan ***should*** provide a clear focus to guide the audit to a successful conclusion. This is critical to the identification of the issues that will be reported. VFM audit reports contain conclusions about complex government operations, and their relevance and impact is heavily influenced by decisions made during the survey phase.

4.19 Advice and concerns received are documented. The survey report is also submitted to the Report Steering Committee (RSC), along with an audit proposal.

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

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

The survey report

4.21 The results of the survey are documented in a survey report. Relevant analysis and documentation supporting the plan are maintained in the permanent files or working papers, as appropriate. The survey report ***should*** contain a plan that includes:

- the audit objectives;
- an indication of how the audit will add value and make a difference for Canadians;
- a description of the audit scope, major considerations and the rationale for the scoping decisions, the reasons for any limitations to the scope, and audit risks that may exist;
- links to Office priorities;
- the audit criteria and their sources;
- a discussion of quantification plans for each line of inquiry;
- a description of the planned audit approach and methodology, including opportunities to quantify the implications of deficiencies;
- identification of audit staff, including regional and functional staffs and the qualifications of contract staff engaged for their special knowledge or skills;
- the estimated cost of the audit in terms of hours and contract dollars;
- the timing of the audit, the key milestones, the control points and the likely timing of Audit Advisory Committee meetings; and
- how the reporting strategy relates to the direction from the RSC.

4.22 The audit Principal is responsible for the preparation of the survey report. The AAG/CESD approves the report, after consultation with appropriate FRLs, the second AAG, and the Audit Advisory Committee.

4.23 The survey report is the basis for a chapter proposal made by the team to the RSC.

4.24 Any major revisions to the audit objectives, scope, budget requirements, reporting strategy, cost or timing of the audit ***should*** be brought to the attention of the AAG/CESD and the RSC.

Audit objectives

Audits must have clear objectives that can be concluded against (may not apply in all audit notes).

4.25 Audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of an activity; for example, results achieved, economy or efficiency. Ideally, audit objectives would be

consistent with the achievement of results of the entity, sector or functional area. In general terms, the objectives of a typical VFM audit are compatible with the Office's mission.

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

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

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

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

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

Audit scope

Audits must have a clear scope that focusses the extent, timing and nature of the audit.

Audits must select issues on the basis of their relevance to the Office's mandate, significance and auditability.

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

the audit subject. There are three underlying principles in establishing the scope of the audit:

- relevance to the mandate
- matters of significance
- auditability

Relevance to the mandate

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

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

Matters of significance

4.34 The principles set out in the Office's Strategic Framework provide an important tool when considering audit worthiness of potential areas of audit. They state that we focus on significant issues and matters that will add value and make an important difference for the Canadian people. Identifying matters of significance for audit involves answering the following type of questions:

- Does the subject have an important impact on results?
- Is it an area of high risk?
- Does it involve material amounts?
- Does the audit have the potential to result in improved performance, accountability or value for money? Will it make a difference?
- Is it an issue with visibility or of current concern? Is it of interest to parliamentarians and Canadians? Is the timing opportune for the audit and to meet the needs of the client?

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

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

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

Auditability

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

- The nature of the activity is inappropriate; for example, it may not be practical to attempt to audit the technical considerations of a research facility.
- It does not have or cannot acquire the required expertise.
- The area is undergoing significant and fundamental change.
- Suitable criteria are not available to assess performance.

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

Audit criteria

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

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

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

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

4.43 Criteria ***should*** be developed for each of the lines of audit inquiry. They are to be relevant, reliable, neutral, understandable and complete. The aggregate

of the observations allow the audit team to form a conclusion against each audit objective.

4.44 The sources of the criteria determine the amount of effort needed to assure the suitability of the criteria. The sources of criteria are:

- the law and regulations;
- standards developed by recognized professional organizations;
- entity Reports on Plans and Priorities and Performance Reports;
- generally accepted good practice;
- standards established by the audited organization;
- measures developed specifically for the audit by adapting criteria used in similar engagements or by reference to standards and practices of other organizations carrying out similar activities; and
- prior work of the Office.

4.45 Criteria based on the law or recognized professional standards generally can be accepted by the auditor. In these circumstances, the auditor needs only to ensure that they are related to the audit objective.

4.46 Primary sources of criteria for VFM audits are the controls, standards, measures, result commitments and targets adopted by the management of the organization or imposed by Parliament or the 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 relevant to the audit to ensure that they are reasonable and complete. The audit team can consult with professional bodies or other organizations carrying out similar activities or operations to test the quality of the standards or to identify best practices. Where the entity's own measures are found to be suitable, they can be adopted as the audit criteria.

4.47 Where the entity does not have well-established standards for measuring or judging performance, consistent with the audit objectives, the auditor needs to identify suitable criteria. Generally accepted criteria may be obtained from sources such as the law, regulations, and standards developed by professional associations and recognized bodies of experts. If these are not available, the auditor can rely on performance data of other organizations, inside or outside of the government, that have similar activities or operation, best practices determined though benchmarking or consultation; and standards developed by the auditor through the analysis of a task or activity.

4.48 Over the years, the Office has developed and tested criteria for a large number of entities and activity areas. These may apply well to other audits, and the audit team can search the Methodology database on the Office's Intranet site to determine if generic criteria, which can be adapted to the activity being audited, are available in the Office.

4.49 Benchmarking and the development of standards through analysis of individual activities and/or comparison with similar activities in other organizations are costly activities and would not normally be undertaken by the

auditor. Where the audit survey indicates the potential for significant improvement to operations or savings, the auditee could be encouraged to carry out such activities. In extreme circumstances, the auditor can seek advice on the advisability of carrying out such tasks from senior management of the Office and the Audit Advisory Committee.

4.50 The audit Principal ***should*** discuss the audit objectives and the criteria to be used with senior officials in the audited organization and obtain written comments, if possible, on the suitability of the criteria, as well as discuss with officials the team's understanding of management responsibility in the context of the audit approach. If there is disagreement with management on the team's understanding of management responsibility or on the suitability of the criteria and the conflict cannot be resolved, the Principal ***should*** consult the AAG/CESD and the Audit Advisory Committee before proceeding with the audit. Under no circumstances is the audit to be carried out using criteria that would result in biased or misleading audit results.

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

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

Audit approach: a focus on results

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

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

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

4.56 An audit that does not provide the "so what" of the issue will likely receive an indifferent reception from parliamentarians and the management of the

audited organization. It may also cause the auditor difficulty in concluding against audit objectives.

4.57 This section briefly describes two main audit approaches:

- **Auditing results directly.** This approach focusses initially on outputs and outcomes.
- **Auditing the control systems.** This approach focusses initially on systems and controls.

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

Auditing results directly

4.59 Departments and agencies are now required to define results commitments in their Planning, Reporting and Accountability Structures (PRAS) and to report goals and actual performance in the Estimates documents tabled annually. These provide excellent points of reference for results-oriented auditing.

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

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

4.62 The types of problems that may be identified include:

- services that are not in accord with the program mandate;
- unit costs that exceed departmental standards, or costs of comparable activities in other sections of the government or in outside organizations, and
- goods or services that do not meet standards of quality or quantity.

4.63 Where the audit objective is to examine the achievement of program objectives, the auditor exercises caution that the audit does not question the

merits of political policy. The Office has no desire to enter into a political policy debate — that is the job of the politicians.

An example of a results-based audit:

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

Auditing the control systems

4.64 This approach is designed to determine if the organization has adequate control systems to provide reasonable assurance that the intended results are achieved. The word control is taken in its widest interpretation and embraces all of the elements of management that are required to achieve an intended result. The audit is designed to carry out analysis, review and testing of the key components of the control system to ensure that it is appropriately designed and implemented. If the control system is effective, it provides a strong indication that the results will be satisfactory.

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

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

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

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

The examination stage

4.69 The purpose of the examination stage of the audit is to gather necessary and sufficient information and audit evidence to allow the auditor to:

- develop observations about whether or not performance is consistent with the criteria;
- conclude against each audit objective;
- identify opportunities to improve performance; and
- support the audit recommendations and conclusions.

4.70 The audit team designs the audit tests and procedures to obtain necessary and sufficient information in the most cost-effective manner. The actual audit steps may include a wide variety of techniques, such as interviews, surveys, analyses, sampling, confirmation, inspection, analytical review, and flow charting. The audit team can use computer-assisted audit techniques, whenever their use will increase the quality and efficiency of the audit. Audit programs are prepared that set out the detailed audit procedures. They provide:

- a guide for conducting the work to be done;
- a framework for assigning work and budgets;
- a basis for supervising work;
- a means of transferring knowledge to junior staff; and
- a basis for documenting the work done and the exercise of due care.

4.71 As noted earlier in the manual, VFM auditing can be described as an iterative decision-making process. The evidence gathering is in line with the overall process. The auditor obtains information, examines it for its completeness and appropriateness and determines if it is sufficient to assess performance against the criteria. If not, additional evidence is gathered.

4.72 The evidence-gathering process involves the following steps:

1. designing the audit procedures or tests (the audit program);
2. carrying out audit procedures or tests/gather evidence;
3. analyzing evidence and evaluating performance against the criteria; and
4. making decisions – whether additional evidence is required (go back to step 1) or whether evidence is necessary and sufficient to measure performance.

4.73 It is not unusual for audits to be redesigned during the examination stage as teams encounter unforeseen difficulties with information quality or ease of access. Auditors have to be alert to signs that the evidence-gathering process may not achieve the high level of audit assurance needed for VFM auditing.

Audit evidence

Audits must have necessary and sufficient evidence to support observations.

4.74 Audit observations and conclusions included in the report must be able to withstand critical examination. They must, therefore, be supported by necessary and sufficient evidence commensurate with the level of assurance to be provided.

Necessary evidence

4.75 Necessary evidence refers to the factors that exist for an observation to be true. For example, to observe that a training program is not cost-effective, it may be necessary to demonstrate that it is both unnecessary for some (because they will already know what is being taught) and non-productive for others (because they never use the skills being taught). Analysis of both factors is necessary to observe on cost effectiveness of this program.

Sufficient evidence

4.76 Sufficient evidence refers to the quantity of the evidence needed to support an observation. It is important that evidence be relevant to the subject and period of time encompassed by the audit, and that it be reliable, sound, consistent, objective and amenable to independent confirmation. It is the best available evidence considering the cost of collecting it. There is a connotation that only evidence needed to satisfy each audit objective be collected.

4.77 In determining if all necessary and sufficient evidence has been gathered to provide a high level of assurance, i.e. audit level assurance, the auditor needs to be satisfied that the risk of error, faulty conclusions or inappropriate recommendations is minimal. To minimize this risk, the auditor ***should*** corroborate the observation/conclusion by using evidence from different sources and of a different nature.

4.78 When gathering information at this stage, the auditor thinks forward to the reporting stage and the need to communicate the audit message in a persuasive manner. Opportunities to use case studies or visual aids, such as photographs, as audit evidence often provide a convincing way to illustrate an issue in the audit report.

4.79 Evidence may take a variety of forms. It may be:

- obtained by direct inspection or observation. Wherever possible, it would be better to obtain photographs or videotapes to support such observations;
- notes of interviews. These ***should*** be substantiated by other evidence, wherever possible;
- copies of actual documentation;
- confirmation from third parties, including measurements or standards of performance used as a basis for developing criteria; and
- statistics, comparisons, analysis, rationale etc. developed by the audit team.

4.80 Under these circumstances, a review of the evidence by a reasonably knowledgeable person will result in similar observations and conclusions.

Reliance on other audits and evaluations

4.81 Audit teams ***should*** rely on the work of internal auditors or program evaluators when the work has been carried out in accordance with the audit standards defined in this manual. Close co-operation with the entity's audit and evaluation group can promote economy of audit effort by eliminating duplication.

4.82 Where reference to findings from entity audits or evaluations is included in the Auditor General's Report, the audit team ***should*** assess the supporting evidence to assure the validity of the findings. Normally when such matters are included in the report, the source of the finding is clearly indicated.

Developing audit observations

Audits must involve objective evaluation of the evidence against the criteria to develop observations.

4.83 The audit team gathers information directed toward making an assessment of actual performance of an activity or process against criteria. Where the auditor finds that actual performance does not meet the criteria used, further investigation ***should*** be designed to gain assurance that any resulting observation is significant, fair and has the potential to result in important improvements to performance, value for money or accountability.

Gathering additional evidence may involve:

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

- assessing the impact or potential impact of the deficiency on results. The effect of the problem ***should*** be quantified, whenever possible, in order to illustrate the "so what" in the audit report;
- identifying the cause of the deficiency in order to be assured that recommendations put forward will be appropriate;
- determining whether the problem can be fixed by the organization. It may be that it is the result of actions or events beyond its control;
- gathering further evidence (such as cases, statistics, graphics or photographs, etc.), where appropriate, to illustrate the nature and importance of the issue;
- determining who is affected by the issue, such as other units within the organization, central agencies or other departments; and
- discussing the matter with management. If they are aware of the issue and have corrective action under way, the issue may have less significance for reporting purposes. Certainly it will change how the matter is reported.

4.84 The comparison of the evidence against criteria, and further investigative work into the nature and significance of the issue, will result in the identification of observations. The analysis and the resulting observations are to be influenced only by the evidence obtained and assembled.

4.85 The observations are the basis for forming overall conclusions against the audit objectives.

Developing recommendations

Audits must include recommendations to guide necessary corrective actions when deficiencies are reported (may not apply in all audit notes).

4.86 Audit observations resulting from the audit may be positive or negative. Where deficiencies in performance have been identified, the auditor needs to develop recommendations to guide corrective actions for those deficiencies significant enough to be reported. Normally the recommendations ***should*** be stated in broad terms of what needs to be done, with the specifics of how it can be done being left to departmental officials.

4.87 When developing recommendations, the audit team ***should:***

- seek management's views on what actions are necessary to correct the problem;
- consider the cost and feasibility of implementing the proposed action and alternative courses of remedial actions; and
- understand the effects on results, both positive and negative, if the recommendations are adopted.

4.88 In some instances, it may not be feasible for the audit team to make an appropriate recommendation. The audit can still make a major contribution by bringing a highly professional analysis of the situation to the attention of the audit entity and Parliament. Audit recommendations may not be necessary where the audit entity has committed to a course of corrective action. In such circumstances, pointing out that such actions are under way may suffice.

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

Departmental responses to recommendations

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

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

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

4.92 The response is typically provided to us by a Deputy Head or delegate who is acting on behalf of a Deputy. When more than one department has been the subject of the audit, one joint response, or multiple responses with each department being clearly identified are acceptable. Government-wide audits can be responded to by the lead department or by the Treasury Board Secretariat on behalf of the government.

4.93 We have notified departments in a letter from the DAG, Corporate Services that, while we do encourage their responses, there are certain limits to what we are willing to publish in the Report of the Auditor General. For example, we have advised them that:

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

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

- Responses must be received at least six weeks before tabling day in order to be published with the report. We also need the departmental response

six weeks prior to tabling in order to meet commitments to brief the Treasury Board Secretariat and the Privy Council Office.

- We do not print departmental responses or comments in the Main Points or throughout the chapter.

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

4.94 Audit teams ***should*** ensure entity officials are aware of the limitations to responses to recommendations, and encourage them to comply. Copies of the letter are to be included with the Transmission draft chapter that is forwarded to the Deputy Minister for signoff. If exceptions to these limits are requested, they are to be discussed with the Advisory DAG. We may, from time to time, wish to include a global response to a study to make the government position available to the reader. Also, departments may wish to publish an action plan to correct the deficiencies noted in the report. This would be acceptable if it assists the accountability or provides more information about the benefits to be achieved by the recommendations, and are limited to one page.

4.95 The Principal's draft chapter ***should*** be presented to the department at least twelve weeks before tabling day. In the case of audit notes and follow-up, this time frame may be shortened but sufficient time must be given to the entity to consider and respond to the issues.

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

4.97 In most cases, we do not publish responses to audit notes or follow-up chapters. Audit notes do not normally contain recommendations. And follow-up is a status report of action on previous recommendations, and the initial audit chapter would have disclosed the department's agreement or disagreement with the recommendations. We may publish a response if there is substantial disagreement with the conclusion, and there are some instances where the response is helpful for Parliament to understand the issue. This is a judgment call. The final decision on a departmental response in these instances rests with the Office and must be approved by the Advisory DAG.

Audit conclusions

Audits must have necessary and sufficient observations to support conclusions made against each audit objective (may not apply in all audit notes).

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

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

4.100 The auditor ***should*** assess the significance of the observations in relation to the audit objectives. At the extreme ends of the performance spectrum — fully satisfactory performance or highly unsatisfactory performance — concluding against the overall objective may not pose a problem. In the majority of cases, however, the auditor will have to use judgment. The audit conclusions and the major considerations and rationale for the conclusions are reviewed with the AAG/CESD and the Audit Advisory Committee.

The audit report

Audits must result in a report that meets the Office's Reporting Standards.

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

5 *VFM Audit Reporting Standards*

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

- **the objectives, nature, time period covered by the audit, and scope of the audit, including any limitations;**
- **the professional standards used;**
- **a description of the program or activity that was audited, including management's responsibilities;**
- **the criteria used and any disagreement with management on their suitability;**
- **the observations made;**
- **the recommendations made to guide corrective action (may not apply to all audit notes);**
- **management comments (if provided) including planned action in response to the audit and any differences of opinion; and**
- **the conclusions reached against each audit objective.**

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

- the end use of the report — that is, the use made by the parliamentarians in their scrutiny of government operations; and
- the scope of the Office mission to promote accountability and best practices in government operations.

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

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

- convincing and their importance highlighted for the reader;
- fair and presented in an unbiased tone, noting where management has taken actions to correct the deficiencies and pointing out exemplary performance; and
- only dealing with matters of significance.

Key contents

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

Objective

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

Timing

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

Nature and scope

5.6 To set out what was audited, the extent of audit and any limitations.

Professional standards

5.7 To provide confidence that the audit was conducted in a professional manner.

Description of the program or activity

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

Management's responsibilities

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

Criteria

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

Performance observations

5.11 To report the extent to which performance satisfied the criteria, and to present sufficient, relevant and appropriate analysis and information to ensure an understanding of the issue. The observations point out the significance of the issue by describing its impact on the quality of performance or by quantifying the problem. They also point out, wherever possible, the effect on results. The issue is to be presented in a convincing but fair way. The underlying cause of the problem is described and visual aids are incorporated, wherever possible, to illustrate the nature of the problem.

Recommendations

5.12 To guide the action needed to correct any problems.

Management comments

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

Conclusions

5.14 To point out the assessment of performance against each audit objective.

A high-quality report on time

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

Clearance of field work

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

Internal draft

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

- obtain views of the audit advisory committee, Assistant Auditor General (AAG)/Commissioner of the Environment and Sustainable Development (CESD) and second AAG on the significance and ordering of the issues and whether the report message “hits the mark”;
- start the edit, translation, textual and presentation review by the Reports Group;
- initiate review by Central Review for historical perspective and continuity/consistency between chapters;

- obtain approval of Legal Services for initiating report clearance with entity staff. The vehicles used for this purpose may be fact sheets, point form report, working papers and the initial draft. The purpose is to confirm the facts, obtain management's reactions to the observations and views on corrective actions, and to ensure that the report contains no surprises; and
- obtain a draft written departmental response and make changes to the chapter as appropriate.

The Principal's draft

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

- AAG/CESD approval;
- additional challenge, advice and counsel from the audit advisory committee;
- second AAG review, and FRLs' and regional principals' review and approval of matters within their area of interest;
- approval from Legal Services with respect to mandate and third party;
- substantive review and edit from the Reports Group;
- third party clearance, where applicable (see below); and
- entity comments.

Chapter Main Points

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

- cover all the important messages outlined in the chapter;
- be stated as clearly in the PX Draft as they will be in the media release; and
- have a concordance in tone and emphasis with the body of the chapter and the media release.

5.20 The Main Points are divided into 3 parts:

- Main findings that describe the main messages of the chapter. This section might include an occasional concrete example to facilitate understanding.
- Background and other observations to tell the reader what s/he absolutely needs to know to fully understand the main messages. It might include historical references, and other important points.
- Summary of departmental responses to briefly describe the Department's commitment (or non-commitment) to take action.

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

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

Transmission draft

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

- obtain Deputy Minister (DM) comments, planned corrective actions and any disagreements;
- incorporate departmental comments in the chapter; and
- obtain sign-off from the Principal and AAG/CESD on quality.

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

Third party clearance

5.25 "Third party" is defined as any organization or person outside of the department or agency that is the subject of the audit report. For greater certainty, this includes other government departments, central agencies, Crown corporations, suppliers or beneficiaries of government programs, or any other organization, individual person or group of persons mentioned in the report. The Office owes third parties a duty of care to ensure accuracy and fairness of references. Further guidance is provided under Third Party Clearance in Chapter 7.

Confidentiality and security

5.26 All material related to audit reports ***should*** be kept confidential and secure in accordance with the Office's Security Policy. Draft chapters and other material used to disclose audit findings to departments or agencies ***should*** be marked "Protected Draft for discussion purposes only" and clearly indicate that they are the property of the Office of the Auditor General. Further guidance is provided under Security of Information in Chapter 7.

6 *Audit Follow-up Standards*

The status of corrective action on all recommendations and significant observations from previous reports of the Auditor General and, where appropriate, those made by parliamentary committees, must be followed up by the Office until the issue is resolved or is no longer in need of follow-up, and reported to Parliament on a timely basis.

Introduction

6.1 The primary purpose of follow-up is to ascertain whether recommendations and observations have been addressed by entities, and to provide information to Parliament on an entity's progress. Parliamentarians are highly interested in whether entities are taking concrete action.

6.2 A related objective of our follow-up work is to determine whether our audits have “made a difference”. Information collected during our follow-up work may be used in the Office’s Performance reports.

6.3 The elements of follow up include:

- a timely, systematic review of management action on audit observations and recommendations;
- an assessment of whether the management action undertaken will likely correct deficiencies meant to be addressed;
- an assessment of the ease or difficulty of implementation of the recommendations;
- a determination as to whether any additional work is needed – as a further follow-up or as a subsequent audit;
- a review of what is no longer relevant; and
- inclusion of the results of the follow-up in the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development.

6.4 Follow-up work ***should*** be performed as a review engagement. In our follow-up reports to Parliamentarians we seek to provide a moderate level of assurance[1] on the extent and adequacy of corrective action taken. This does not

mean that we re-audit the subject area, but that we base our work on information provided by entity officials. Our acceptance of this information is based on the audit team's knowledge of the entity supplemented by further enquiry, analysis and discussion necessary to satisfy the audit team that the information presented is plausible in the circumstances.

6.5 In some cases, such as an issue or recommendation that is highly complex, the team may need to implement full audit procedures. Deciding whether this is necessary will be a decision of the entity Principal and AAG. Further guidance on Follow-up is provided under Annex 1 to this chapter.

6.6 Follow-up is one of the VFM products of the Office. As such, all follow-up work must comply with VFM Audit Standards[2] set out in Appendix 1. The only exceptions are the standards dealing with recommendations, because recommendations are not usually included in follow-up reports.

Applicability

6.7 This policy applies to follow-up of all VFM audits, studies and audit notes including those of the Commissioner of the Environment and Sustainable Development (CESD), and significant observations of parliamentary committees. If a chapter does not contain recommendations, follow-up may still be warranted. The audit Principal is expected to decide whether points and observations raised in the original chapter require follow-up.

Reporting Media

6.8 The traditional medium for follow-up reporting is to combine individual follow-up reports in a chapter of the Report of the Auditor General. Variations are to be approved by the Report Steering Committee (RSC).

6.9 For entities with regular reporting, teams may consider including follow-up reports in annual chapters. The CESD will include a follow-up of past recommendations in his annual report to Parliament.

6.10 We need to ensure that follow-up reports are easy to read and understand. In order to provide a fair report, teams need to include reporting against progress made in implementing recommendations rather than focusing on what has not been fixed.

Reporting Length

6.11 A guideline for reporting follow-up has been set at two pages. However, some issues require more to provide an understandable assessment of progress. Where the follow-up Principal believes a longer segment is needed for explanation and clarity, consultation with the FRL, Follow-up in advance is required. It is preferred that teams be direct in their choice of style and avoid standard clauses such as "progress has been made but more remains to be done".

Responsibilities

6.12 Because follow-up work is usually reported in a combined chapter, responsibilities are shared between the audit team and the FRL, Follow up. The responsibility for quality and content of follow-up reports rests with the entity principal and AAG. Responsibility for follow-up of recommendations in the Report of the CESD remains with the Commissioner. The RSC, with assistance from the FRL, Follow-up, will monitor all follow-up products on a team-specific basis.

6.13 The FRL, Follow-up, is deemed to be the Chapter Author, and is responsible for the overall format and consistency of the combined follow-up chapter. All individual follow-up reports ***should*** be sent to the FRL, Follow-up, for review and advice. The FRL, Follow-up, is also responsible for providing advice to audit teams on matters concerning follow-up process , and for ensuring that the follow-up chapter is completed in accordance with the annual report schedule.

Timing

6.14 Initial follow-up is typically done two years after the original chapter is published. Any exceptions to this will be with the approval of the RSC. There can be exceptions to this rule when, for example, implementation of changes to address our recommendations takes longer than two years, or where the issue is very complicated.

6.15 It is beneficial for teams to identify the expected plans of their entities for implementing action, how long corrective action might take, and (where feasible) the best estimates of costs and benefits of recommendation implementation. This will allow the teams to measure (after two years) what steps have been taken to implement a longer time frame recommendation. In cases where a conclusion regarding a particular recommendation cannot be drawn within the two-year time frame, it is the responsibility of the team to track the issue until it is resolved or is no longer in need of follow-up.

Planning and Costs

6.16 Planning for follow-up by the audit team immediately upon completion of the original audit can have several benefits. These include a sober second thought on the cost and feasibility of the recommendations, and the practicality of measuring progress against the recommendations.

6.17 It is important that follow-up be performed in an efficient manner, and that teams identify the resources they need for follow-up in time for consideration at the fall resources planning session. Wherever possible, the team leader who led the original audit ***should*** lead the follow-up.

Endnotes

[1] This is the level of assurance provided by a Review Engagement as described in the Standards for Assurance Engagements by the Canadian Institute of Chartered Accountants.

[2] Note: VFM Audit Standards are designed for audits. However, one may substitute the word “follow-up” for “audit”, and comply with all VFM standards except those dealing with recommendations.

Annex 1

Overview of Practice Expectations for Follow-up

Follow-up is defined as:

Activities undertaken to provide a moderate level of assurance on the extent and adequacy of corrective action taken by the entity to address the shortcomings identified in a VFM chapter. In some cases this might also include providing a moderate level of assurance on whether the steps being taken are actually making a difference.

As the current guidance on follow-up indicates, reliance is placed on information provided by officials, with sufficient confirmation to determine whether their assertions are plausible in the circumstances. To provide a reasonable level of assurance on progress, we would need to see evidence of management commitment, delegation of responsibility to someone to correct the problem, internal communications, monitoring of progress, and internal reporting. Evidence would normally be limited to enquiry, analysis and discussion. Corroborative evidence may be necessary to determine whether the information obtained is plausible.

Any activities that go beyond this level of assurance are defined as VFM audits and are to be managed and controlled as such. This includes re-audits or blended follow-up with new audit. As a guideline, if the scope of the new product looks at areas not included in the original audit, or the work includes additional inspection, observation, confirmation or computation, it is likely an audit itself.

Type of Activity	Assurance provided	Techniques Used	QMS Expectations
Follow-up	Review or Reasonable assurance that: 1. appropriate steps are being taken by the entity to implement the recommendation; or 2. the underlying problem is being corrected.	*Enquiry* through interviews of appropriate officials, *analysis* of documents including minutes of meetings, action plans, internal progress reports and management assertions about progress, and *discussion* with staff, clients and stakeholders about the implications of progress and next steps. Evidence of appropriate steps at this level of assurance would include statements of management	PX responsibility for all aspects of the follow-up. The normal VFM controls (Advisory Committees, RSC submissions, Second AAGs, etc), other than AAG supervision, do not apply. The Follow-up FRL must be involved.

		commitment, discussion at senior committees, a plan of action, delegated responsibility for action, and internal monitoring and reporting mechanisms. Evidence of the problem being resolved at this level of assurance could include information from sources such as internal progress reports, opinions of independent stakeholders, or observation of activities.	
Re-Audit, Expanded follow-up	1. High level of assurance about the results that have been realized from the steps taken by the entity; or 2. Expanding a follow-up to audit other related topics; or	Approaches include enquiry, analysis and discussion as described for follow-up, complemented by more substantive tests (inspection, observation, confirmation, and computation) to assess compliance with the criteria applied during the original audit (or updated as required). This requires re-application of the techniques applied during the original audit, to provide a basis for the comparison of current and past performance, and examination of the extent to which change can be attributed to management initiatives.	Full QMS expectations as specified in the VFM manual.

7 *Practice Expectations*

Introduction

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

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

How to use this section

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

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

- **Audit management**
- **People management at the team Level**
- **Continuous improvement**

Audit management

Authority: requests for services or audits

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

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

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

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

- Obtain the approval of the AAG before making any commitment to the requesting organization;
- Refer requests for work requiring authority under Section 11 of the *Auditor General Act* or under the *Financial Administration Act* to Legal Services; and
- After authorization to accept the request, confirm in writing the terms and conditions of the work to the requesting organization.

Access to Information

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

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

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

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

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

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

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

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

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

7.17 Audit information left with the audit entity. The Office of the Auditor General is not subject to the *Access to Information Act*. However, all audit reports, working papers and other information prepared by the Office and left with the audit entity may be subject to disclosure under the Act. These reports and working papers may be requested by third parties, either directly or though access to information requests. We do not normally allow disclosure of this information, other than the information tabled in the House.

7.18 Audit Principals ***should*** consult with the FRL, Access to Information, before agreeing to the disclosure of non-public audit reports, working papers, and other potentially sensitive information prepared by this Office.

7.19 Further guidance on access to information can be obtained from the FRL, Access to Information.

Security of information

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

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

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

- acquiring an understanding of the security classification system in their audit entities;
- communicating the requirements to team members; and
- ensuring that the safeguards for the storage of and access to information are equal to or higher than those required by the audit entity.

7.23 If you are using the Office's Intranet site, click on the following icon to view the Security Policy and Guidelines.

OAG Security

Consultation with Legal Services

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

- legal issues arising in the course of audits;
- the engagement of outside legal counsel; and
- in-house legal issues in areas such as personnel relations, labour relations and contracting.

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

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

- potential legal issues are identified by the audit team early in the audit process;
- legal advice forms the basis of an audit report to be made available outside the Office or where any advice destined to the Auditor General or the Executive Committee deals with legal matters;
- substantive discussions are planned with the Department of Justice or the legal services units of an entity;
- an audit report proposes changes or revisions to legislation, to ensure that it is appropriate and consistent with previous recommendations made by the Office;
- a Principal intends to refer in an audit report to a legal opinion obtained by the audit entity;
- requests for new work or services are considered; and

- third party references are made in reports.

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

Under revision

Legislative amendments

7.28 (Legal Services is considering proposed wording for this section.)

Co-ordination of work with regional offices

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

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

Under revision

Conflict of interest, fraud or other illegal acts

7.31 (The Executive Committee is considering proposed wording for this section)

Carrying out surveys

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

7.33 Audit Principals ***should*** consult with the FRL, Surveys in planning survey-related activities. If you are using the Office's Intranet site, click on the following icon to view the Guide on Conducting Surveys.

Functional Guidance
Shell

Audit notes

7.34 Audit notes are an important part of the Auditor General's report. The audit notes chapter represents an alternative reporting mechanism for matters of significance that come to the attention of audit teams. Audit notes may be identified during any of the various types of audit work carried out by the Office. The audit notes chapter author is responsible for producing the chapter and for supporting the work of the Audit Notes Committee. The Committee is chaired by an AAG.

7.35 The Audit Notes Committee's role is to:

- provide overall direction for the preparation and submission of proposed notes;
- support the activities that contribute to the production of the chapter; and
- review and approve notes for inclusion in the chapter.

7.36 Audit teams are to be alert to the possibility of potentially significant issues and devote appropriate effort to investigate such matters. When developing and reporting audit notes, audit teams ***should*** comply with the Value-for-Money Audit Standards, except those requiring the setting of overall audit objectives, recommending corrective measures, and concluding against audit objectives.

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

7.38 If you are using the Office's Intranet site, click on the following icon to view the most recent audit notes guidelines.

(DATABASE CURRENTLY UNDER CONSTRUCTION)

Restrictions in public reporting

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

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

Reports to entity management

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

Under revision

Third party clearances

7.42 (Legal Services is considering proposed wording for this section).

External communications

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

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

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

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

7.47 **Spokespersons for the Office.** On tabling day of his report and during the following week, the Auditor General is the only spokesperson for the Office

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

7.48 Requests for interviews with media representatives ***should*** be channelled through the Director, Communications.

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

- inform their Principal or a higher level person to whom they report if they intend to deal with the media on a non-work-related topic and might be identified as an employee of the Office.
- obtain the approval of the AAG/CESD before accepting invitations to speak, teach, or lecture on work-related topics.
- obtain the authorization of AAG/CESD, in consultation with the Director, Communications, to publish work-related articles, and include in the article a disclaimer that the views expressed do not necessarily represent the views of the Office.

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

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

- inform themselves of the Office position on issues they deal with at external committees, by consulting with the appropriate members of the Office, including FRLs;
- notify the Practice Development Committee (PDC) chair of any significant variances of positions taken by the committee with those of the Office; and
- inform the PDC about substantive issues arising from committees that relate to and have a significant impact on Office methodology and practice.

7.52 Preparation for tabling and standing committee hearings. Parliamentary Liaison is responsible for co-ordinating effective Office

participation at committee hearings. This includes arranging and co-ordinating the preparation for scheduled hearings; briefing meetings, as required, with members of the Office staff, committee staff and committee members; and post-meeting reviews to identify opportunities for future improvements.

7.53 The External Policy on Communications and the Guidelines for Hearings and Auditor General Briefings describe practice expectations in these areas.

7.54 If you are using the Office's Intranet site, click on the following icons to view the Policy or Guidelines.

Ext./Int.
Communications Policy

Parliament Shell

People management at the team level

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

7.56 The Office values its employees and recognizes that they are the most important element in meeting its goals. The aim is to have a respectful workplace that develops highly skilled, motivated, and productive individuals, while maintaining the flexibility and diversity required to achieve the mission in a cost-effective manner. Audit teams are where the majority of the Office resources are used and are the front lines in terms of operations. It is important that teams operate in an environment that encourages personal growth and fulfilment of aspirations.

7.57 The Office is engaged in a fundamental review of the roles and responsibilities of all supervisors including DAGs, AAGs, Principals, Directors and team supervisors. When this review is completed, the results will be incorporated into this manual.

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

- be role models in action and in words and consistently practice sound leadership;
- exhibit and encourage openness, patience, trust and teamwork;
- clearly define the work assigned, the purpose of the work, and employees' functions, responsibilities and authority, and explain how the assigned work fits into and contributes to the accomplishment of the overall objectives of the audit;
- coach staff to achieve higher performance. Coaching involves ensuring that expectations are clearly set out, transferring skills to staff, working with people having problems, providing skill and development opportunities, following up and providing feedback, recognizing good performance, and giving encouragement;
- maintain both formal and informal channels of communication to keep staff informed about the Office vision, mission, priorities, quality management system, Office and team quality improvement initiatives; new or innovative audit practices; and other issues affecting the individual, team, or Office as a whole;
- ensure that any barriers between audit teams and functions are reduced and promote teamwork and open communications up, down and across the organization;
- involve team members, whenever practical, in solving problems and in initiatives to improve quality and encourage them to suggest innovative ideas; and
- identify individual and team training and development needs and respond to these needs through training, work assignments and counselling on performance progress.

7.59 If you are using the Office's Intranet site, click on the following icon to view the Human Resources Information Site (HRIS). HRIS provides a complete description of people management expectations.

HRIS Human Resources Information

Under revision

Continuous improvement

7.60 Quality is a basic operating principle of the Office. Quality involves every aspect of the Office's operations including its leadership, the focus on client needs, management of our people, audit practices and other processes, and our system for measuring performance. Quality is not a static condition. It requires a commitment from every staff member to continuous improvement.

Under revision

7.61 A critical feature of the quality management system is the process for measuring, in a comprehensive way, how well we're doing in achieving our goals. This is achieved through a variety of review mechanisms.

The review continuum

7.62 Review is carried out in several ways, but all based on the audit standards, quality control criteria, Office policies and other practice expectations in place within the Office. All levels of review are designed to provide assurance that practices meet accepted standards, and to help the Office continuously improve the quality of its products.

7.63 **Team self-assessment.** Audit teams can review audit practices through post-audit discussions and using available Self-Assessment Checklists. Checklists act as reminders to support the team in producing a high-quality audit. They can provide a blueprint for corrective actions during the course of the audit, provide a barometer to measure the quality of the audit, expedite future internal practice and external reviews, and identify opportunities to improve team and Office practices.

7.64 **Practice reviews.** The Professional, Practice and Review Group carries out practice reviews of a sampling of audits in order to obtain a perspective on the quality of audit and management practices. It also carries out reviews of areas of higher risks across all audits. The scope of the practice reviews encompasses all aspects of the audit process. Practice reviews are designed to contribute to continuous improvement by creating the opportunity for audit teams and the Office to learn from experience.

7.65 If you are using the Office's Intranet site, click on the following icon to view the Policy on Practice Review for annual audits.

Policy.rtf

7.66 **Internal audit.** Internal audits of administrative functions are carried out using the same auditing standards that the Office uses when conducting audits in the government. Internal Audit advises management of significant risk areas within the Office and the extent to which they are being well managed. It provides information, analysis, assessments and recommendations to assist management in the discharge of its responsibilities.

7.67 **External reviews**. The Office periodically appoints an external organization to carry out a review of its practices in order to confirm internal assessments and to obtain a truly independent assessment.

8 *The Office's Quality Management System*

Context

8.1 The Office has always maintained a very high level of excellence and credibility in its work. Parliamentarians, stakeholders, taxpayers, and the media have, on many occasions, complemented the Office on the quality of its work.

8.2 In the past, the Office's quality control system has relied heavily on dialogue and co-operation, in addition to the formal control instruments. This quality control system has evolved continuously over the past decade, in response to changing perceptions of risks, reduced budgets, and increasing diversity of our audit base.

8.3 Overall, the process has served us well, but significant changes to our practice have required that the Office build on its existing strengths in ensuring product quality. This fact was explicitly recognized and underlies one of the key strategies in the January 1998 Strategic Framework, i.e. to "implement a coordinated and efficient Quality Management System for all Office products". The development of a quality management system for all our products is therefore the next logical step in our continuous improvement journey to ensure that our products enjoy the same level of excellence as in the past.

Principles of quality management

8.4 Quality management systems are based on a number of principles. The key ones are:

- quality is built into the production process rather than relying on post-production audits or checklists;
- responsibilities for each player in the control process are clearly defined and properly communicated;
- controls respond to key risks in a timely manner. Too many controls results in no control;
- an efficient control process;

- controls are built in a cascade, with an appropriate mix of external, corporate, group, team and individual controls;
- controls are results-focussed; and
- practitioners participate in the continuous evolution of the control framework.

8.5 The Strategic Framework encompasses the Office's quality management framework. The framework is continuously evolving and is regularly updated to reflect the current environment within which the Office operates. The Strategic Framework is built upon a number of guiding principles that call for, among other things, quality products, leadership in the management of people, continuous learning and growth, co-operation and teamwork, and valuing the talents of all our people.

8.6 In developing the Strategic Framework and its guiding principles, the Office recognized that no set of rules or controls can cover every circumstance that arises in the course of carrying out an audit, and emphasis is placed on the exercise of sound professional judgment. A key challenge for the Office quality management system has been to provide the right balance between required control steps and the amount of professional judgment that practitioners can exercise. On the one hand, we need flexibility and discretion for practitioners on the other hand we also want to manage key risks through compliance and documentation of key control steps.

8.7 **Figure 5** shows the key elements — audit management, people management and continuous improvement — of the Office's Quality Management System.

8.8 **Figure 6** depicts the key steps in the Office's present VFM audit process control framework.

8.9 The key requirements of the Office's quality management system are contained in the VFM Audit Control File. If you are using the Office's Intranet site, click on the following icon to view these requirements.

VFMAudCtrlFi

Ongoing improvement of the quality management system

8.10 Continuous improvement activities form part of every quality management system. A continuous improvement process will ensure that our quality management system continues to evolve to reflect the current environment within which the Office operates.

8.11 A continuous improvement process typically contains six activities that operate in an interactive manner: various forms of review to assess product or process quality; identification and documentation of lessons learned; development of an inventory of improvement initiatives; practice improvement studies to propose reinforcements to approaches; formal documentation of standards and expected practices; and development activities to build staff awareness of new standards and expectations. These activities apply equally to all elements of the Office's quality management system.

8.12 It is important that our VFM work results in reports of high quality and that it makes a difference for Canadians. Our continuous improvement activities ensure that we continue to build on our already strong focus on quality in our VFM products.

Figure 5

Key Elements of the Office's VFM Quality Management System

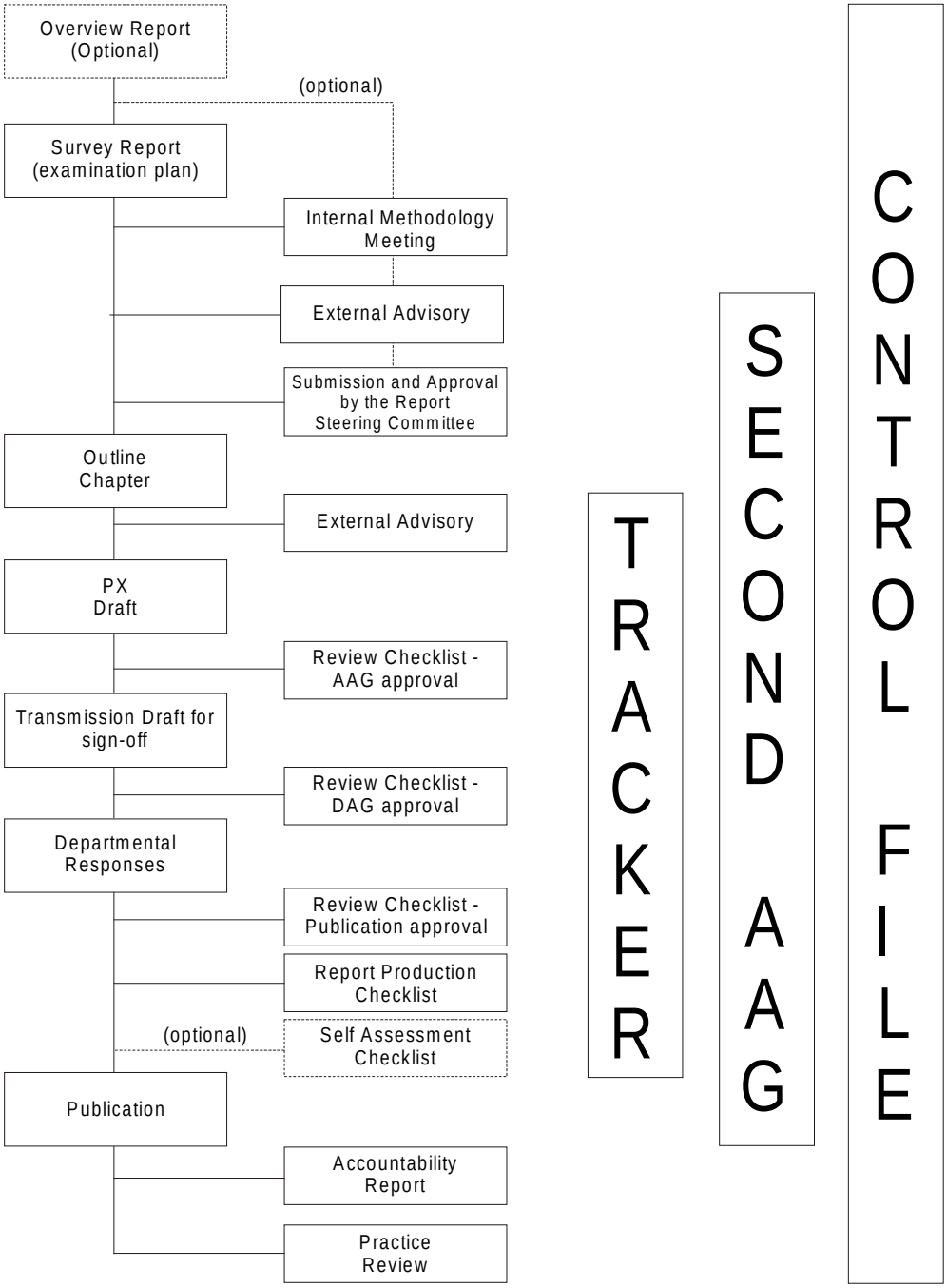
Quality Management Element	This element should provide reasonable assurance that:	Key Instruments Employed
Audit Management		
1. Authority	The Office only undertakes audits where it has the authority to do so. It also accepts engagements when asked to do so under Section 11 of the *Auditor General Act* as long as they do not pose undue risk to the Office.	• *Auditor General Act* • *Financial Administration Act* • VFM standards and guidance • Legal Services team advice and support
2. Independence, objectivity and integrity	Personnel are free of any obligation or interest in their audit entities; personnel are honest and candid at all times with due regard for confidentiality of the audit entities' affairs; and personnel maintain an impartial state of mind when carrying out audits.	• *Auditor General Act* • Code of Professional Conduct of the Office • VFM standards and guidance • Conflict of interest declarations/re-certification and related guidance • Legal Services team advice and support • *Treasury Board's Conflict of Interest and Post Employment Code for the Public Service*
3. Conduct of the audit	The Office has in place an appropriate audit methodology, recommended procedures and practice aids to promote compliance with VFM audit standards and expected practices	• Panel of Senior Advisors • Report Steering Committee • External Audit Advisory Committee • Second AAG • VFM standards and guidance • Software support tools • Functional responsibility leaders (FRLs) • Methodology review and update mechanisms for VFM methodology
4. Consultation	When dealing with complex, unusual or unfamiliar issues, audit teams refer to authoritative literature and seek the assistance of Office specialists and individuals	• VFM standards and guidance • Audit Advisory Committees • Information Technology, Legal Services and FRLs advice and support

	from outside the Office with appropriate competence, judgement, and authority.	
5. Personnel Security, access, and file retention	Personnel have security clearance appropriate for the nature of documentation that they will be required to access; there are appropriate restrictions on the access to audit files (electronic and hard copy) and related audit reports; audit files are kept in a secure manner at all times; and are retained for an appropriate length of time.	• VFM standards and guidance • Security policies and guidance • Security review and update mechanisms • Security Officer in place • Security clearance procedures • Government Security Policy
People Management		
6. Resourcing	Audit teams possess the required qualifications and competencies to enable them to carry out audits. Personnel assigned to specific engagements have the appropriate degree of technical training and proficiency to carry out the work.	• VFM standards and guidance • Human Resources policies and guidance • Centralized Human Resource function
7. Leadership and supervision	Managers provide an appropriate level of leadership and direction and foster an environment in which all team members are encouraged to perform to their potential and to ensure that audits are properly carried out. Personnel are properly supervised and coached in their work.	• VFM standards and guidance • Human Resources policies and guidance • Office Mentoring Program
8. Performance management	Personnel receive timely and constructive feedback on their performance. Personnel have access to counseling, guidance and monitoring to help them manage and develop their careers.	• VFM standards and guidance • Human Resources policies and guidance • Centralized Human Resource function • Performance Management System including assignment and annual objectives and appraisals

	Personnel selected for advancement are competent and fully qualified to fulfil the responsibilities that they will be called upon to assume.	• Counseling, guidance and monitoring processes • Promotion processes
9. Professional development	Personnel undertake professional development through such means as on-the-job training, formal courses, self-directed studies, and internal and external assignments.	• Human Resources policies and guidance • Centralized Professional Development function • Professional development through such means as on-the-job training, annual staff updates, formal courses, self-directed studies, and internal and external assignments • Library resources • Self-Learning Center • Counseling, guidance and monitoring processes
10. Respectful workplace	Personnel demonstrate and encourage in others those behaviours that lead to a respectful workplace which develops highly skilled, motivated and productive people who contribute to fulfilling the mission of the Office. Personnel respect and value diversity in the Office.	• Human Resources policies and guidance including Discrimination and Harassment Policy and Health and Safety Policy • Centralized Human Resource function • Official Languages Act and Employment Equity Act • Justice Canada mediation program • Harassment coordinators
Continuous Improvement		
11. Practice review	The Office carries out internal reviews of its VFM Practice to assess the extent to which its practice meets these Quality Management Criteria	• Practice review policy and program • Internal audit

Figure 6

Overview of the VFM Audit Process Control Framework



Appendix 1: Value-for-Money (VFM) Audit Standards

These standards were developed for VFM audits carried out by the Office. They represent the requirements that must be met for a product to be considered a VFM audit. The standards do not apply yet to other Office products — studies and special examinations — although later actions will consider how they can be modified to do so.

General Standards

- The Code of Professional Conduct and other Office policies must be adhered to in all Office activities.
- All VFM audits must be completed in accordance with the Office's VFM auditing standards.

Audit Conduct Standards

The essential standards of our approach to VFM auditing are the following:

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

Audit Examination Standards

- Audits must have clear objectives that can be concluded against (may not apply in all audit notes).
- Audits must have a clear scope that focusses the extent, timing and nature of the audit.
- Audits must select issues on the basis of their relevance to the Office's mandate, significance and auditability.
- Audits must have suitable criteria that focus the audit and provide a basis for developing observations.
- Audits must have necessary and sufficient evidence to support observations.
- Audits must involve objective evaluation of the evidence against the criteria to develop observations.
- Audits must include recommendations to guide necessary corrective actions when deficiencies are reported (may not apply in all audit notes).
- Audits must have necessary and sufficient observations to support conclusions made against each audit objective (may not apply in all audit notes).
- Audits must result in a report that meets the Office's Reporting Standards.

Audit Reporting Standards

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

- the objectives, nature, time period covered by the audit, and scope of the audit, including any limitations;
- the professional standards used;
- a description of the program or activity that was audited, including management's responsibilities;
- the criteria used and any disagreements with management on their suitability;
- the observations made;
- the recommendations made to guide corrective action (may not apply to all audit notes);
- management comments (if provided) including planned action in response to the audit and any differences of opinion; and
- the conclusions reached against each audit objective.

Audit Follow-up Standards

The status of corrective action on all recommendations and significant observations from previous Auditor General Reports and, where appropriate, those made by Parliamentary Committees, must be followed up by the Office until the issue is resolved or is no longer in need of follow-up, and reported to Parliament on a timely basis.

Appendix 2: Definition and Interpretation of Key Terms used in the Auditor General Act

Significance

The introductory clause of Section 7(2) means that the Auditor General reports only matters of considerable amount, effect or importance. The nature of the items reported are to be current and of interest and priority for review by parliamentarians.

Including cases

The requirement to report cases means that the Office provides assurance or reports positive findings, as appropriate.

Due regard

The audited entity is obligated to be prudent in its use of resources, that is, to consider all reasonable and appropriate actions in its decision making.

Economy

Economy means getting the right amount of resources, of the right quality, delivered at the right time and place, at the lowest cost.

Efficiency

Efficiency means the minimum resource inputs to achieve a given quantity and quality of output.

Effectiveness

Effectiveness refers to the extent to which the outcomes of an activity match the objective or the intended effects of that activity.