



International Peer Review of the
Value for Money Audit Practice of the
Office of the Auditor General of Canada

Peer Review Report

National Audit Office - United Kingdom

Riksrevisjonen - Norway

Cour des Comptes - France

Algemene Rekenkamer - The Netherlands

February 2004

Summary Report

To: The Auditor General of Canada

- 1 An international peer review team with representatives from the Supreme Audit Institutions of the United Kingdom, France, Norway, and the Netherlands examined the value for money audit practice of the Office of the Auditor General of Canada (the Office). Two members of the United States General Accounting Office participated as observers.
- 2 The objective of the Office's value for money audit practice is to provide Members of Parliament with independent, objective and supportable information that they can rely on to examine the government's performance and hold it to account. To achieve that objective, the Office has established a quality management framework to ensure that value for money audits are carried out in accordance with the Office's legislative authorities, recognized standards of professional practice and with due regard for economy, efficiency and effectiveness.
- 3 The Office is responsible for the design and effective operation of its value for money audit practice including the quality of the audit products. Our responsibility is to determine whether the Office's value for money audit practice is suitably designed and operating effectively to achieve its objectives.
- 4 Our examination was carried out in accordance with commonly accepted auditing principles consistent with the Code of Ethics and auditing standards issued by the International Organization of Supreme Audit Institutions.
- 5 The criteria used to assess the Office's value for money audit practice are based on the audit policies stipulated in the Office's Value-for-Money Audit Manual. These policies derive from the legislative authorities specified in the Auditor General Act (1995) and relevant auditing standards promulgated by the Canadian Institute of Chartered Accountants. The Office's value for money audit policies are attached at Appendix A.
- 6 We assessed whether the Office's quality management framework is suitably designed to incorporate legislative authorities, recognized standards of professional practice and appropriate measures to ensure that value for money audits are carried out with due regard to economy, efficiency and effectiveness.
- 7 We also assessed the extent to which the value for money audit practice is operating effectively - to produce independent, objective and supportable information that Members of Parliament can rely on to examine the government's performance and hold it to account.
- 8 We found that as at 31 December 2003, the Office's value for money audit practice was suitably designed and operating effectively to achieve its objectives.
- 9 The remainder of this report highlights potential opportunities that management may wish to consider to enhance the quality of the Office's value for money audit policies and practice.



Caroline Mawhood – Review Leader
The National Audit Office of the United Kingdom on behalf of the review team

4 February 2004

Opportunities for Improvement

Introduction

- 1 The international peer review team conducted an independent and objective review of the Office's value for money (VFM) audit practice in accordance with commonly accepted auditing principles and standards. The team examined the Office's documented policies and procedures, a number of the Office's 2003 audits and interviewed staff involved in the audits and with responsibility for functional areas. The review team members are listed at Appendix B which also outlines the review team's methodology in more detail.
- 2 We are pleased to report that as at 31 December 2003 the Office's VFM audit practice was suitably designed to incorporate legislative authorities and recognised standards of professional practice, and to ensure due regard for economy, efficiency and effectiveness; and that it was operating effectively to provide Parliament with independent, objective and supportable information which can be relied on to examine the government's performance and hold it to account.
- 3 In performing the peer review we drew on the broad and diverse experience of the international team of peers to make a number of observations on the Office's approaches and practices and to identify a number of areas which the Office should consider for improving its VFM audit practice and quality management framework (QMF).

Overall VFM audit approach and quality management framework

4 Audit policies

The Office has appropriate audit policies in place to ensure that the resultant audit reports achieve their objectives. The Office has an extensive quality review process, covering all aspects of the VFM audit procedure from the selection of audits through to post-tabling activities, and including environmental and sustainable development audits and follow-up work. This strong quality assurance process helps to ensure that appropriate audit policies are followed. Our review of audit chapters found that the QMF is operating effectively. The roles of the quality reviewer, practice reviews, and the VFM Management Committee are developing and providing quality assurance throughout the VFM audit cycle. These are sound mechanisms for checking if controls are operating effectively and ensuring that the audit approach is challenged.

Quality reviewer - Quality reviewers are appointed for each audit and provide an additional element of independence and objectivity in key risk areas: audit planning and reporting.

Practice review - Practice reviews are carried out on a sample of audits to obtain a perspective on the quality of audit and management practices. Practice reviews are designed to contribute to continuous improvement by creating the opportunity for audit teams and the Office to learn from experience.

VFM Management Committee - The VFM MC ensures that the quality of work meets the standards of the Office. The VFM MC reviews all audit proposals including proposed budgets and reviews all audits for compliance with the Office's audit process controls and QMF prior to publication of the audit reports.

- 5 VFM auditing policies are written as "should" statements in the Office VFM audit manual and must be complied with. Other "should" statements are also included in the text of the VFM audit manual and are expected practices. Where the "should" statements relate directly to a VFM audit policy or Canadian Institute of Chartered Accountants standard they are consistent with those policies and standards. There are a number of other controls relating to the process of producing a VFM audit, some of which are essential to produce a good quality VFM product. But each control appears to have an equal risk

weighting and some of the controls may have been developed for financial audits and do not always readily read across to VFM work. There is a risk that the quality assurance process focuses on ensuring a standard level of quality without promoting a general improvement in the quality of audit products. To address this risk the review team believe that in developing the QMF the Office should consider:

- enhancing training of VFM staff to strengthen the link from the VFM manual to specific guidance on practical methods and approaches;
- ensuring that quality reviewer and practice review recommendations continue to be fed back into the VFM manual; and
- rationalising and prioritising the VFM audit process controls based on the risks inherent in the range of VFM audit products produced and staff competencies.

Good practice

- 6 The review team observed a number of good practices in the Office's VFM process and QMF (**Figure 1**). These add weight to the robustness of the Office's VFM products and process controls. There are some good examples of timely coverage of subjects of concern to Canadians that can lay the foundation for further work (for example in the audit chapters on the *Road Transportation in Urban Areas and Canada's Strategy to Combat Money Laundering*). There is good work on guidelines for accountability arrangements, on a rating tool for measuring departmental performance and an overview report on sustainable development issues.

1 Good practice in the Office of the Auditor General

Operation of the QMF - our review of audit chapters found that the QMF is operating effectively. Staff are using the framework in developing VFM work and the processes provide a solid foundation for ensuring that there is supportable evidence for the VFM report conclusions and recommendations.

Quality assurance - the role of quality reviewer during the audit and practice reviews during and at the end of the audits, the VFM audit manual, and the role of the VFM Management Committee in overseeing VFM work are developing and these are good mechanisms for checking if controls are operating effectively and that the audit approach is challenged at key stages in the VFM audit cycle.

Mix of staff - the Office is multi-disciplinary, and our discussions showed a high level of commitment and professionalism of staff. Good use is made of advisory committees composed of experts from outside the office to develop the audit issues and check the robustness of the audit findings and conclusions (for example on the *Protection of Cultural Heritage in the Federal Government* audit). The Office has functional experts and subject matter experts, for example on quantitative analyses or accountability arrangements, as well as internal advisors for each audit.

Product diversity - the Office selects and produces a diverse range of audit products from audit notes to follow up reports and also cover the area of environment and sustainable development. In general the Office's chapters and reports are short and easy to read and produced to a demanding timescale four times a year

Good use of real time audits - timely coverage of subjects of concern to Canadians lay the foundation for further work (for example on the *Road Transportation in Urban Areas and Rating Departmental Performance Reports* audits). The Office also produces useful guidelines work on accountability arrangements and wider sustainable development issues.

Good follow up on recommendations implemented - The Office obtains and responds to regular feedback on performance from the main parliamentary and departmental stakeholders, including the number of recommendations implemented.

7 Audit planning

Strategic planning, audit selection and coverage of the audit field are sound with good concentration on risk assessment in audit plans (one pass planning) and on the contribution of audits to the five focus areas of the Office. This gives the Office's work coherence and direction. The risk assessment process is conducted as part of wider discussions between the relevant departments and the Office. The audit selection process is developing and the Office recognises that there will need to be more emphasis placed on how VFM resources are allocated to audits in subsequent rounds.

One pass planning - is a systematic approach to analysing the main risks that will affect the achievement of a department's objectives. The one pass planning process examines the audit risks across the VFM audit, financial audit and sustainable development disciplines at the same time rather than dealing with each risk area separately.

Five focus areas - The Auditor General has established five focus areas to steer the work of the Office throughout her term: Accountability to Parliament; Effective Public Service; Aboriginal Issues; Well-being of Canadians; Legacy and Heritage.

8 Audit implementation

The main audit findings and conclusions are supported by the evidence and there is good consultation with departments and other stakeholders. Review of audit files and interviews with staff suggested that detailed file review and interview were the main audit techniques used and in the audits reviewed the evidence fully supported the report findings and conclusions. There is often wide consultation with interested groups and organisations, for example on sustainable development audits, and all audits have an advisory committee of external experts. There are functional experts and subject matter experts, to for example, advise audit teams on quantitative analyses or accountability arrangements, as well as quality reviewers for each audit.

9 Performance measures

The Office measures its impact in improving the government's accountability, operations and services by determining the percentage of recommendations acted upon within four years of being made. Each year the Office publishes a report with a number of audit chapters following-up earlier work. The Office's annual report also has some performance measures, for example, the number of recommendations endorsed by the Public Accounts Committee.

10 Feedback

The Office has introduced a number of mechanisms to obtain feedback on VFM audit work from its main stakeholders. In 2002 the Office commissioned a detailed survey of Members of Parliament. Overall it found a high degree of support for the role of the Office. In response to comments from Parliamentarians the Office has prepared a strategy to enhance communications, addressing one of the main findings of the survey. Implementation of this strategy should help to ensure that key messages are communicated more pro-actively.

11 The Office has also recently begun conducting surveys of officials whose departments have been the subject of a VFM audit in the past year. These surveys are intended to provide feedback on the Office's VFM audit approach and process and on the recommendations that officials are expected to act on. The surveys will provide the Office with opportunities to continue to improve its work and to address any concerns arising.

Areas for improvement

- 12 The review team identified a number of areas which the Office should consider for improving its VFM products.

Audit planning

13 Looking at the scope of some audits

The Office could consider examining in more depth the scope of some audits early in the design and planning phase to ensure the scope is appropriate to meet the audit objectives; for example by giving more emphasis to clarifying the issues, criteria, methodology, sources of evidence and likely areas for recommendation. This could also help to identify at an early stage the need for external expertise and internal technical and subject matter expert input.

- 14 Audits could benefit from greater consideration at the planning stage of the issues and likely recommendations that would address economy and efficiency matters. Consideration could also be given to how to design recommendations that are clear about the action departments need to take, and are focused on causes, results, and departments' performance.

Audit implementation

15 Reviewing the audit methodologies routinely used on VFM audits to collect and analyse audit evidence

The methodologies used in undertaking VFM audit are sound but there may be opportunities to make more use of techniques such as focus groups and quantitative analysis. This could provide opportunities to present audit findings in a more compelling way. There has been some use of surveys, benchmarking and statistical analysis (see for example the audit *Correctional Services Canada - Reintegration of Male Offenders*, which used a survey of parole officers). A richer set of methods could be more cost effective for the auditor and auditee and lead to more recommendations that result in beneficial change and improved efficiency and economy. **Figure 2** outlines some VFM techniques and how they could be used.

2 VFM methodologies which the Office could consider using more widely

Case studies can be used to highlight good practices. A comparison of cases that have performed well with those of average performance can help to identify the good practice. Case studies can show why an activity does not provide value for money and to demonstrate the impact of a specific action or event, for example by examining a case before and after the specified event or action occurred and comparison with cases not influenced by the event

Performance benchmarking uses a range of measures and indicators to compare the performance of organisations. Indicators typically cover resource utilisation, unit costs, efficiency and where possible, quality of service.

Focus groups - A focus group usually comprises between 8-12 people that are judgmentally selected as representatives of a larger population for example members of the public, senior officials, decision-makers, experts etc. A facilitator is used to direct the group discussion and to focus attention on the specific aims of the session - this might involve developing practical recommendations. The evidence produced through focus groups is qualitative in nature and has the major advantage that it gives depth and understanding to a given topic. Focus Groups are particularly useful in identifying issues, understanding why decisions/actions are taken, testing emerging findings to generate survey questions and to develop practical recommendations

High-level comparisons of an organisation with some other body having similar functions or activities. Comparisons cover organisational structures, operational policies, and how each organisation tackles a specific problem. The emphasis is on learning from others' experience and ideas and putting findings in context.

- 16 The use of a wider set of methods could be usefully supported by:
- Expanding the training available to VFM staff with examples of how VFM methodologies are used. The current training programme for VFM staff includes a two year programme for new recruits consisting of ten courses, including two on value for money techniques. The programme content could be usefully developed.
 - Reinforcing the link between the VFM manual and the specific guidance on practical methods and approaches through training and supervision. Including in the guidance examples of how methodologies are used could help in selecting the best audit approach.
 - Considering the recruitment of additional staff with analytical and research skills.
 - Investigating whether greater use could be made of external experts to advise and undertake specific methodologies where there is insufficient in-house resources or expertise.
- 17 **Organisational learning**
- There are also opportunities for more organisational learning. Currently, for example, there is no comprehensive system to collect and analyse all lessons from audits and feedback from stakeholders and to bring this together with the quality review material to inform guidance and training.

Audit reporting and follow up

- 18 **Recommendations should be specific and action-orientated**
- Earlier consideration of the areas for recommendation in the audit cycle could enable audit teams to focus on beneficial change and discuss with departments at an earlier stage.
- 19 When the Office look at effectiveness, they focus on whether the entity has established procedures to measure its results and program effectiveness. They have found that better results can be achieved through better management and therefore audit recommendations often tend to focus on accountability and procedural issues - requiring audited bodies to set clearer performance measures, improve management information, and clarify responsibilities. Audits could however benefit from stronger, more specific, action-orientated recommendations focusing on economy and efficiency and performance issues - focusing on the results achieved and how they can be improved. It is also not always clear from audited bodies' responses to the recommendations what action they intend to take.
- 20 **Report presentation**
- The audits we have reviewed have been generally sound, well-structured, succinct and well written. The policies set out in the VFM audit manual ensure that findings are accurately reported and addressed to meet the concerns of stakeholders.
- 21 Some audits make good use of graphics - for example the audits *Rating Departmental Performance Reports and Managing the Safety and Accessibility of Pesticides* include a number of graphs that communicate findings well. Other reports could benefit from a wider use of graphics and illustrations to present complex numerical data and other information. The Office could also give more prominence in reports to where external experts and consultants have been used and thereby add weight to the audit findings.
- 22 **Doing more to show that the VFM audits make a difference**
- Although the Office has a good set of mechanisms to measure their impact, they could benefit from showing that VFM audits do make a difference by assessing whether a problem has been resolved by implementing the recommendations and whether performance has improved.

Use of VFM resources

- 23 Looking at the cost of individual audits with more analysis of comparative costs. Any good VFM practice should strive to improve its efficiency both for its internal operations and for its clients. The Office has a diversity of audit products: full VFM audits, audit notes, follow up reports and coverage of environment and sustainable development matters. The average time to be spent on an audit is around 5,000 hours for a follow-up audit, 9,000 hours on a regular VFM audit, and 10,000 hours for a government wide audit, and the average cost of regular VFM audits in 2003 was over \$1,100,000.
- 24 More analysis of the cost elements of individual audits is needed to determine whether the resources allocated to them reflect the needs of the audit. Costs are closely linked to the methods used and the size of audit teams. Audit teams can at some stages in the audit be somewhat large. Although the whole team would not be working on the audit full-time there is some inflexibility in the way that staff are allocated to audit. Human resources are generally allocated to audits based on past experience and opportunities may exist to review and reallocate resources at various stages of audits
- 25 The Office could consider more use of audit notes and small scale VFM audits to test new methodologies, train staff, make better use of VFM resources and enable positive issues to be highlighted. Small scale VFM audits are a good vehicle for testing new methodologies and approaches and in doing so enable innovation to flourish where this could be stifled by time constraints in a "normal" VFM audit.

Summary of suggestions

26 The Office should consider:

Looking more closely at the scope of some audits for example by giving more emphasis to setting out the issues, criteria, methodology, sources of evidence and likely areas for recommendations at the design and planning stage. This could also help identify the need for external expertise, and internal technical and subject matter expert input.

Reviewing the breadth of the audit methodologies routinely used on VFM audits to identify the opportunities for expanding the range of techniques used including use of comparative analysis and more quantitative and qualitative techniques such as focus groups or surveys. This could add depth to the audits and may lead to some savings in audit resources which could be used to tackle more complex areas of the audits.

Expanding the training and guidance available to VFM staff on methodologies and presenting report data. This could include stronger recommendations and improving the presentation of audit reports by greater use of figures, graphics and case examples to support the main findings. There is also scope for learning lessons from audits and ensuring the Office has the appropriate mix of staff competences to deliver quality VFM products.

Recommendations should be specific and action-orientated. Earlier consideration of the areas for recommendation in the audit cycle could enable audit teams to focus on beneficial change and discuss with departments at an earlier stage.

Improving the presentation of reports both in terms of use of graphics and tables to present complex numerical and financial data to enliven the chapters. Footnotes could be used to show sources of evidence. Skeleton or outline reports could also be used to develop key graphics at an earlier stage. Finally, more prominence could be given in audits (perhaps in the About the Audit section of each chapter) to where external experts and consultants have been used and thereby add weight to the audit findings.

Doing more to show that the VFM audits make a difference, for example in following-up on not only where recommendations have been implemented but what they have achieved in terms of improved performance.

Looking at the cost of individual audits with more analysis of the comparative costs of audits and possibly the cost elements of individual audits to determine whether the resources allocated to them reflect the needs of the audit - this is closely linked to the approval of audits and the methods used and the perceived 'cost' of the QMF.

Appendix A

Office of the Auditor General of Canada Value For Money (VFM) Audit Policies

The following policies were developed by the Office of the Auditor General of Canada for VFM audits.

General Policies

- The Code of Professional Conduct and other Office policies should be adhered to in all Office activities.
- All VFM audits should be completed in accordance with the Office's VFM auditing policies.
- VFM audits, studies and audit notes should be managed as projects.

Audit Conduct Policies

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

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

Audit Examination Policies

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

Audit Reporting Policies

- Each audit should 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 and policies 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.

Appendix B

Peer Review Approach and Review Team

Peer review team

Algemene Rekenkamer - The Netherlands

- Frank van den Broek
- Piet Rozendal
- Hans de Groot

Cour des Comptes - France

- Hervé Barbaret
- Louis Gautier

National Audit Office - United Kingdom

- Mark Dawson
- Nick Lacy
- Caroline Mawhood (Review Leader)

Riksrevisjonen - Norway

- Kristin Amundsen
- Helge Strand Østveiten

Observers

General Accounting Office - USA

- Abraham Akresh
- Benjamin Nelson

Purpose of the peer review

The peer review of the Office was intended to provide reasonable assurance to Members of Parliament and Canadians that:

- i the Office's performance audit process and quality management framework are suitably designed to incorporate legislative authorities and recognized standards of professional practice, and to ensure due regard for economy, efficiency and effectiveness;
- ii the Office's performance audit practice is operating effectively to provide independent, objective and supportable information for Parliament which can be relied on to examine the government's performance and to hold it to account.

Peer review scope and approach

The peer review involved two stages. The first - the "design assessment" stage - considered whether the Office's audit methodology and quality management framework incorporate recognised standards of professional practice (e.g. applicable Canadian Institute of Chartered Accountants (CICA) standards, legislative requirements (set forth in the Auditor General Act 1995) and appropriate measures to ensure due regard for economy, efficiency and effectiveness.

The second stage - the implementation assessment stage - determined whether, in practice, VFM audits are carried out in accordance with Office policies and the quality management framework to produce independent, objective and supportable reports for Parliament. This stage considered the areas of audit selection, audit scope, audit evidence, audit reporting, and audit process controls.

Sources of evidence

- Crosswalk of CICA assurance standards to the Office's policies for VFM audits;
- Assessment of the Office's Quality Management Framework, including practice review strategy;
- Five audit case studies, spread over the course of the reporting year, and covering the work of the Commissioner for the Environment and Sustainable Development. The review included interviews with audit teams, review of audit control and substantiation files;
- Wider reviews of audit chapters to assess thematic VFM issues such as methodologies, presentation of findings and recommendations;
- Focus groups with the Office's VFM practitioners;
- Review of VFM functional areas: for example on overall audit selection, training, budgeting, practice development and follow up of audit recommendations.

