
A Survival Guide to Auditor General Audits

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The *Federal Accountability Act* was recently passed by Parliament. It amplifies the impact of the Office of the Auditor General (OAG) on public servants by increasing their accountability before parliamentary committees. As a result, public servants need a good understanding of the OAG audit process. The objective of this article is to provide basic information to officials:

- to allow them to better understand the audit process;
- to make the process more efficient and less stressful;
- to ensure that the audit process and audit report are fair and transparent; and
- to better prepare for appearances before parliamentary committees on audits.

The Auditor General Act (AG Act) and the Financial Administration Act (FAA) authorize the Auditor General (AG) to conduct a variety of examinations. However, the audits of most concern to public servants are performance audits formerly known as value-for-money audits and audits by the Commissioner of Environment and Sustainable Development. While this guide focuses on performance audits it is also relevant to the Commissioner's audits.

Parliament did not give the OAG an unlimited license to audit. Parliament expects the OAG will use reasonable audit criteria to assess programs, and deal with administrative issues, not political policies. It did not allow the OAG to assess program effectiveness restricting it to examining effectiveness measurement procedures. The OAG has become the sole interpretator of its mandate. This contrasts with the years immediately following the passage of the AG Act when there was a healthy discussion on how this mandate should be interpreted.

The OAG selects areas for audits based on "materiality, importance to the achievement of government results, and current parliamentary or public interest."¹ The cur-

rent AG's focus is accountability to Parliament, effective public service, aboriginal issues, well-being of Canadians, and legacy and heritage. The OAG planning process includes annual reviews to identify audit issues, and periodic long-range departmental audit planning exercises called One-Pass Planning to identify risk areas. In the spring the OAG approves a five year audit plan. In the fall the plans are updated and budgets approved for upcoming audits.

Audit Principals (PXs) have the overall responsibility for managing the audit, ensuring its quality, and maintaining "effective departmental relations." Assistant Auditors General (AAGs) supervises all aspects of the audit. The OAG's Performance Audit Management Committee (PAMC) provides approvals for the audit at key milestones. A Quality Reviewer and in-house experts review each audit. Expert advisory committees are also established.

Audit Process

The AG Act authorizes an annual report and up to three additional reports a year to Parliament. AG Reports are made up of chapters. In 2006 the November report contained twelve chapters. A typical performance audit costs about \$800,000 to \$1million over a 14 to 18 month period.

Prior to beginning work, audit teams are required to submit a chapter proposal for approval to the PAMC. The proposal describes audit objectives, the program to be audited, time lines and estimated costs. The next step is a survey of the program to gain knowledge to develop an examination plan for the second stage of the audit. By the end of the survey stage, the audit team will have digested a significant amount of information about the program, particularly on program risks, deficiencies and weaknesses. A lot of this information will be gleaned from departmental documents and interviews with managers. The result is a

"survey report" that lays the groundwork for an examination plan.

The examination plan contains the final audit objectives, scope, criteria, methodology, and estimated costs and timing. A summary of the plan called the Entity Plan Summary will be sent to the department for comment and challenge. Findings and difficulties encountered during the examination phase audits can result in audits being redesigned.

The reputation and credibility of the OAG depend in large part on the quality of its reports. Chapters are supposed to be written in plain language, convincing, fair, and only deal with significant matters. They have to be supported by evidence that auditors compile into substantiation binders.

Before a report is published several drafts are produced. Internal draft audit reports prepared at the end of the examination phase result in a Principal's or PX draft. The PX draft is supposed to be as close to the final chapter as possible, but this rarely happens. It is sent to the department, central agencies, and "third parties" for "clearance" – to verify facts, and comment on and challenge the validity of conclusions and recommendations. Comments are also sought on the tone of the chapter. Comments and challenges usually result in extensive revisions, and there may be several drafts sent for further review.

Next a Deputy Minister (DM) or Transmission draft is sent to the DM to resolve any remaining disagreements, and obtain a sign off and the department's comments for publication in the chapter. If need be the AG will meet with the DM to discuss outstanding differences.

The completed chapters are compiled into a Report which is sent to the Speaker of the House of Commons for tabling in Parliament. Prior to the Report being published, the OAG will brief officials of the Treasury Board Secretariat and the Privy Council Office and, the AG will offer to meet with the Minister.

Reports are usually tabled in the House of Commons prior to the afternoon Question Period. MPs question ministers on the Report and it is automatically referred to the Public Accounts Committee (PAC). Chaired by a member of the Opposition, the Committee is supposed to review the OAG reports in a non-partisan manner. The Committee decides the chapters on which it will hold hearings, a schedule is set, and witnesses are identified. The Library of Parliament analyst assigned to the Committee prepares briefing notes and suggests questions for the Committee to ask witnesses on each chapter. The analyst usually meets with OAG officials prior to finalizing material. While the PAC is the primary committee that deals with the audit, other House and Senate Committees may hold hearings.

PAC hearings usually start with the AG and departmental witnesses making short statements. Usually these statements are exchanged prior to the hearing to avoid misunderstandings and surprises. Generally the PAC directs its questions to departmental officials. The burden of proving any inaccuracies or alternative conclusions rests with the department. Once hearings are completed the PAC issues a report to which the government must reply. However, this is not necessarily the end. Issues that continue to be of concern may be re-audited, and reported to Parliament in a Status Report. The OAG will monitor departmental responses to its recommendations for up to five years.

View from the Other Side of the Mirror

In 2005-06 the OAG spent \$42.6 million on performance audits and studies.

Information on the costs to departments of co-operating with the OAG is not readily available, but it is substantial. Departmental officials may be unfamiliar with the audit process. Managers may feel that they are being asked to drop everything to deal with the OAG. Departments will receive requests to meet and provide a wide range of information often ASAP. At times they will feel that they are under a lot of pressure to respond to the OAG even though complex and possibly controversial issues are being discussed.

The Entity Plan Summary and the PX draft will be sent to the department for comment and challenge with tight reply deadlines. DMs will want to be briefed at key points in the audit process. Ministers will have to be briefed prior to meeting with the AG. Ministerial briefing books will be needed. Officials appearing before parliamentary committees will also need briefing materials.

Why are there such tight deadlines? The cause is the OAG audit process which is designed to produce a chapter for an AG Report typically within 14 to 18 months from approval of a Chapter proposal. To produce chapters in these time frames, the OAG has created an audit process that is tightly structured. This puts the auditors on a treadmill to produce a product. Departmental staff is conscripted to help. As a result, the audit process can require a major diversion of managerial and staff time and resources to meet its demands. The pressure on auditors to get the job done increases as the publication deadline looms closer. The cancellation of a chapter may mean that several hundred thousand dollars are wasted and a major audit failure.

This situation colors the relationships with departments. Any delay in meetings and providing information slows down the audit process and increases the pressure on the auditors and on departmental officials. Not surprisingly, the process can be stressful for both public servants and OAG officials.

Organizing to Respond to the Auditor General

Departments need a clear framework to help ensure co-operation and a fair and transparent audit process and report. A best practice framework consists of three key elements:

1. establishing an official departmental point of contact;
2. agreeing on a protocol for the audit process; and
3. establishing procedures to ensure an efficient, fair and transparent audit process and an accurate and balanced report.

Official Point of Contact (OPC)

An OPC should be designated by the Deputy Minister. This job is usually given to the Director General of Audit or the Chief Audit Executive. The role of the OPC is to establish an effective working relationship with the OAG and act as the departmental coordinating centre for OAG audits. The OPC should:

- receive and distribute documents the OAG sends to the department;
- coordinate the audit schedule to reduce any unnecessary diversion of staff and resources and disruption of program operations;
- brief departmental officials on the audit process and provide advice as needed;
- ensure the Deputy Minister and the department's audit committee are periodically briefed;
- resolve problems relating to meetings and providing information;
- coordinate tracking of documents provided to the OAG and departmental costs incurred relating to the audit;
- coordinate comment and challenge of OAG reports;
- assist officials to develop a sound action plan to respond to OAG recommendations; and
- provide advice to officials on briefing information.

Protocol Agreement

A protocol – a framework outlining the departmental-OAG relationship – needs to be established and followed. In the past the OAG has reached agreement on protocols with many departments. Departmental staff should be advised about the protocol. For its part, the OAG would like a commitment from the department to provide maximum co-operation. That way the audit can be completed efficiently, on time, and with an accurate and complete chapter. To do this the protocol should specify that the OPC will:

- facilitate the audit process, and
 - resolve problems in a timely manner where the OAG encounters difficulties such as obtaining information, comments on audit reports, or interviews.
- The department will want to have the OAG commit to make the audit process more transparent and understandable. To do this the OAG should agree to:
- liaise with the OPC rather than establish contacts on an ad hoc basis;
 - brief the OPC on up-coming audits as soon as possible;
 - inform the OPC about the Chapter proposal, the audit schedule and which officials the OAG would like to interview;
 - send documents requiring comment by the department on a timely basis and allow the department sufficient time to respond, (for example, three or four weeks);
 - deal with points of disagreement in a timely and transparent manner;
 - provide officials who will be interviewed with information on the purpose of an interview, the issues that will be discussed, and the questions that will asked; and
 - notify officials in advance if minutes of a meeting will be taken and used as audit evidence and that a sign-off on their accuracy will be requested.

In addition, OAG officials could attend meetings of audit committees where a consensus could be reached on program risks and audit plans coordinated.

Ensuring a Fair Audit and Report

There are key measures that departments can take to ensure a fair audit and report. Chart 1 summarizes these steps. Departments need to be proactive. Rather than wait for the OAG to identify problems, the OPC should meet with the senior officials of a program that is scheduled to be audited in the OAG 3-5 year audit plan to discuss the audit process and identify the issues that are likely to be raised. These issues and those raised in departmental audit and evaluation reports should be addressed prior to an OAG audit.

Once the OPC has been informed of an impending audit, relevant staff should be alerted and briefed on the audit process, and reminded about how the department is organized to respond to it. The OPC

Chart 1: Organizing to Respond to OAG Audits

Activity	Departmental Actions
Organizational Framework	<ul style="list-style-type: none"> • Develop long range risk based audit plan • Designate Chief Audit Executive as Official Point of Contact (OPC) • Establish Independent Audit Committee (IAC) • Establish Audit Protocol with OAG and issue departmental policy • Review OAG long range audit plans to avoid duplication and reach consensus on risk areas • Identify and resolve internal administrative differences before OAG audit
Audit Initiated	<ul style="list-style-type: none"> • Address recommendations in internal audit and evaluation reports • Briefs DM, IAC, and officials on status of internal and OAG audits • Reply to OAG Solicitor-Client Letter • Brief officials on audit process, Chapter proposal, identifies likely issues • Officials meet with OAG and provide information • Officials start to keep minutes of meetings with OAG and notify OPC of key issues raised in meeting • Track information provided to OAG and audit costs • Review EPS to ensure objectives are clear, audit criteria are reasonable and audit scope is consistent with objectives and criteria
OAG Entity Plan Summary (EPS) (4-6 months after audit initiated) PX Draft of Audit Chapter	<ul style="list-style-type: none"> • Review accuracy of facts and findings • Ensure conclusions logically flow from facts and findings • Examine the reasonableness and cost-effectiveness of OAG recommendations • Ensure audit report is balanced • Obtain views of IAC
DM Draft (Transmission Draft)	<ul style="list-style-type: none"> • Ensure agreed upon changes to PX draft have been made • Ensure departmental response is included as reply in Chapter • Develop communication strategy • Prepare action plan to address each OAG recommendation • Prepare briefing material for Minister • Prepare communication strategy
Publication	<ul style="list-style-type: none"> • Obtain OAG press release • Attend OAG briefing on logistics of report release • Listen to AG press conference before report tabled in Parliament • Track media coverage of report
Committee Hearings	<ul style="list-style-type: none"> • Prepare briefing material for witnesses • Exchange opening statements with OAG
Follow-up	<ul style="list-style-type: none"> • Respond to PAC report • Implement action plan. • Prepare for follow-up audits by OAG

should brief officials on the Chapter proposal, what types of information the OAG will need, who it needs to interview, and the audit time lines. The OPC should also establish a procedure to track documents provided. Departmental costs relating to the audit should also be tracked to allow for a full costing of an audit and identify areas where efficiency can be improved. Officials should alert the OPC to key issues discussed in meetings and keep minutes to be able to check the OAG’s interpretation of their discussions.

Review the Entity Plan Summary

About four to six months after the audit has started, the OAG will send the department an Entity Plan Summary (EPS). The department needs to review it carefully. Officials who are going to be affected need to be informed to plan for the diversion of staff time to meet the demands of the audit. The department should use the EPS to raise questions about any ad hoc changes in the

audit’s objectives, criteria and scope that may occur during the audit.

The department should make sure that it understands audit objectives. Departments will be asked to sign off that they agree with the audit criteria. This should be taken seriously because the criteria are the standards the OAG will use to assess the program. The criteria should be reasonable, not expecting perfection; drawn from independent authoritative sources, not simply previous OAG audits or ad hoc creations. The OAG should operationally define key quantitative words used in the criteria such as “sufficiently,” “systematically,” “consistently,” or “increasing.” It should also be able to provide the authoritative sources it is using to establish the criteria. Any major unresolved disagreements should be brought to the attention of the Auditor General, and if need be reported to Parliament.

The department should ensure it understands the audit scope — what areas are

going to be audited. There may also be “Lines of Enquiry” restating the audit objectives in terms of subject areas. These should be consistent with the audit objectives and criteria; an area should not be included for which there are no objectives or criteria.

Review PX draft of chapter

After about 10-12 months the OAG will send the department a PX draft of the chapter. The department should check the facts in the document and raise any concerns about its findings, conclusions or recommendations and tone. The department will need time to review this document and the protocol with the OAG should specify how much time the department would normally have – four weeks is not unreasonable. The review of the PX draft should be taken very seriously. It often means diverting key staff to the task. To make the fact checking process easier the OAG should provide the evidence it used to substantiate its facts and findings.

It is the OAG’s responsibility to get the facts right the first time in so far as possible. If there are major errors in the PX draft then this may mean that the audit process is deficient either because of mistakes by the OAG and/or because the department did not provide the OAG with complete and accurate information. In either case, it means that a lot of time and money has been wasted.

The department should also make sure that the report is balanced – that audit criteria have been reasonably applied, deficiencies are significant and have not been magnified by taking them out of context, and that achievements are also reported.

Audit conclusions should be carefully examined to ensure that they flow logically

from the findings. Based on the facts, would a reasonable person reach the same conclusions or are different ones possible? Finally, the OAG should be asked to explain why it believes its recommendations are reasonable, feasible, and cost-effective.

The department may receive several versions of the PX draft as revisions are made or, at least revisions of the paragraphs that are in contention. The OAG is not averse to changing the tone of paragraphs to meet department concerns about misrepresentation of the seriousness of an issue.

Review DM draft of chapter

Once differences are ironed out to the extent possible, a Transmission or DM draft will be sent to the DM for sign off. The DM draft represents the last chance for the department and the OAG to correct errors and settle major differences. The AG may meet with the DM to resolve outstanding major matters. Here the deciding factor will be the facts.

After the DM draft is finalized the department should develop an “action plan” to respond to each OAG recommendation. The plan should set out what is going to be done, who is going to do it, the estimated costs, and the time lines for getting the job done. Finalizing an action plan before tabling allows the minister and the department to better respond to questions. It can be a key element of a departmental communication strategy.

Tabling in Parliament

The next major event will be preparing for the tabling of the AG Report in the House of Commons. Ministerial briefing notes and questions and answers will be needed. The OAG will develop communi-

cation strategy and will issue a press release for each chapter. The latter is shared with the department several days before the report is published. The AG uses plain language to make her points. The language in the press release and in statements to the media may be sharper than the language in the chapter.

On the morning of tabling day there will be two “lock-ups” or confidential briefings. MPs or their staffs are briefed in one session by senior OAG officials, and there is a separate media lock-up where the OAG officials responsible for a chapter are on hand to answer questions. Before Question Period the AG holds a confidential press conference with the media. Departmental officials can listen to the press conference in a separate room. The press release and conference often produce the interpretation of the chapter that appears in the media.

If the PAC decides to hold hearings on its chapter, then departmental senior officials will be called as witnesses. They should be prepared for tough questions. OAG officials are trained to deal with the media and testify before committees. Departments should also give their senior officials similar training.

Conclusion

The OAG audit process can be survived. This guide suggests measures that can be taken to help ensure an efficient, fair and transparent audit process and report. ■

References

1. For more detailed information on the Auditor General’s approach to performance audits readers should consult the Auditor General’s Performance Audit Manual which can be found at www.oag-bvg.gc under the heading Publications, subheading Audit Methodology.