

**Office of the Auditor General of Canada**

**Practice Review Report**  
**Annual Audit Product Line**  
**Audits Completed in Fiscal Year 2003 - 04**  
**August 2005**



Strategic Planning and Professional Practices  
Planification stratégique et méthodes professionnelles

Katherine Rossetti, Director  
Marjorie Pound, Author  
Strategic Planning and Professional Practices (SPPP)

## Executive Summary

### Introduction

In accordance with the Office's Long-term Practice Review Plan 2004-05 to 2006-07, recommended by the Audit Committee and approved by the Auditor General, the Strategic Planning and Professional Practices (SPPP) group conducted four practice reviews of annual audits in 2004-05. This document reports the results of these reviews.

### Conclusion

Based upon the practice reviews performed, we concluded that the audits reviewed were carried out, in all significant respects, in accordance with the Quality Management System (QMS) elements under review (Conduct of the audit, consultation, and resourcing). The Quality Management System ensures that quality is built into the audit process. It guides auditors through a set of required steps to ensure that annual audits are conducted in accordance with legislative requirements, professional standards and Office policies.

### Background

The Annual Audit Practice is an important component of the Office's Legislative Auditing Practice. It comprises the audits of the financial statements of the Government of Canada, most of the federal Crown corporations, other government entities, and territorial governments.

The financial audits are performed according to standards set by the Canadian Institute of Chartered Accounts (CICA) and policies and methodology set by the Office. In 2002-03 the Annual Audit Practice underwent significant change with the introduction of a revised audit methodology including the electronic audit tool TeamMate. Consequently, SPPP revised its methodology for practice reviews of annual audits. SPPP also adopted a risk-based approach to perform the practice reviews more efficiently. This approach was followed in conducting the 2004-05 reviews.

### Practice Review Objective and Scope

The objective of the practice reviews was to provide the Auditor General with assurance that the Office's QMS for annual audits is suitably designed and operates effectively to meet legislative requirements, professional standards, and the Office policies for annual audits.

Four audits were selected for review from the annual audits of financial statements with year-ends between April 2003 and March 2004. All four of the audits reviewed had March 2004 year-ends. Three of the reviews were audits of Crown corporations and other entities, and one was a departmental audit

(components of the annual audit of the summary financial statements of the Government of Canada).

### **Good Practices and Opportunities for Improvement**

In this second year of implementation of the TeamMate software, we noted that the teams were using the software to document the required audit evidence and manage the audit cycle. During the practice reviews we identified good practices in the use of TeamMate; however, we also identified opportunities for improvement that would allow the teams to take better advantage of the functions that the software offers. In addition, we identified opportunities for improvement related to the revised annual audit methodology to be considered practice-wide. These included: examining guidance with respect to documentation of quality reviewer's comments in TeamMate and the team's disposition of them, and, clarifying expectations for the analysis of potential fraud and error. The areas for improvement were discussed with the responsible audit Principals, Assistant Auditors General, and Deputy Auditor General, who agreed with these suggestions.

### **Follow-up of Prior Year's Recommendation**

The practice review recommendation relating to annual audits completed in fiscal year 2002–03 has been addressed.

### **Product Leader's Response**

*I am pleased that the report concluded that the audits reviewed are in accordance with the Quality Management System elements.*

*I have noted that the responsible Principals and Directors have agreed with the opportunities for improvement for their respective audit teams and would expect them to implement the suggestions in a timely manner.*

*I also agree with the practice-wide suggestions for improvement and am pleased to report that in the fall of 2004, in response to new requirements in CICA Handbook section 5135, we made extensive revisions to update our audit methodology in the area of fraud and error and to update our communications templates. As a part of a planned fall 2005 update of our methodology, we will review and import as required any additional tools developed by PriceWaterhouse Coopers in this area. With respect to the need for additional guidance for quality reviewers, a proposed policy has been drafted and was circulated for comment on June 8, 2005 to all principals who act as quality reviewers and to all principals who are responsible for annual audits that have quality reviewers assigned. A number of responses were received. I expect to make necessary modifications to the guidance and to seek approval of the guidance in the fall of 2005.*