

Office of the Auditor General of Canada

Practice Review Report
Assessments of Performance Information in Annual Reports

April 2006



Strategic Planning and Professional Practices
Planification stratégique et méthodes professionnelles

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Executive Summary

Introduction

In accordance with the Office's Long-term Practice Review Plan 2005–06 to 2007–08, recommended by the Audit Committee and approved by the Auditor General, the Strategic Planning and Professional Practices (SPPP) group conducted three practice reviews of assessments of performance information in annual reports reported in 2005. This document reports the results of these reviews.

Practice Review objective and scope

The objective of practice review is to provide the Auditor General with assurance that the Office's Quality Management System for Assessments of Performance Information in Annual Reports operates effectively to meet our legislative requirements, professional standards, and Office policies and practices for assessments of performance information.

We focus our work on selected elements of the Quality Management System for Assessments of Performance Information in Annual Reports. The Quality Management System ensures that quality is built into the assessment process. It guides assessors through a set of required steps to ensure that assessments are conducted according to professional standards and Office policies.

Every year, the Office conducts three assessments of performance information in annual reports. We reviewed the three assessments reported in 2005.

Conclusion

Based on the practice reviews performed, we concluded that the assessments were carried out in accordance with the elements of the Quality Management System for Assessments of Performance Information in Annual Reports that we reviewed.

Strengths and opportunities for improvement

We identified strengths related to the management of budgets and timelines, consultation with Office specialists and quality reviewers, and the appointment of a product leader at the Assistant Auditor General level.

We identified opportunities for improvement at the team level related to the proportion of management time spent on the assessments and to the opportunity, in one case, to carry out less frequent assessments.

We also identified opportunities for practice-wide improvement: maintaining consistency in level of assurance; reducing the costs of assessments; improving

communication among the product leader, functional responsibility leader, and assessment teams; improving consistency in procedures; reviewing the nature and purpose of the assessment report; and improving the manual.

We discussed these areas for improvement with the responsible assessment principals, the assistant auditors general, the Performance Audit Management Committee Chair, and the product leader, all of whom agreed with our suggestions.

We also made three suggestions for consideration by the Office: first, to consider developing criteria that would allow the Office to determine whether a report is assessment ready; second, to discuss the usefulness of the reports with parliamentarians; and third, to review the options for future work.

Product leader's response

I am pleased that the report concluded that the assessments reviewed are in accordance with the Office's Quality Management System for Assessments of Performance Information in Annual Reports.

I have noted that the principals responsible for the assessments have agreed with the opportunities for improvement for their respective assessment teams and would expect them to implement the suggestions in a timely manner.

I agree with the practice-wide suggestions for improvement. I am pleased to report that several improvements have already been made. The 2006 assessments of performance information were conducted at a consistent level of assurance. Procedures have been implemented to reduce costs: assessment work is done on more advanced drafts when possible; communication among the Product Leader, the Functional Responsibility Leader, and the assessment teams has improved by way of frequent meetings; and improved methodology has been put in place to achieve efficiency gains. Interim criteria have been developed to improve the consistency of procedures. A new model assessment report was developed to improve reporting and was used for 2006 assessment reports.

The manual is being reviewed to assure appropriate guidance is in place.

The Office will develop criteria to determine whether a report is assessment ready. The Office will hold discussions with parliamentarians to determine whether the product could be improved. The Office will also review the options available to it for future work and establish a position as a basis for future action.

Introduction

Objective and scope

The Practice Review and Internal Audit Team of the Strategic Planning and Professional Practices (SPPP) group conducts practice reviews of OAG audit products. Through the practice review process, the team reviews audit quality and compliance with Office policies and professional standards and provides assurance to the Auditor General on how well the Office is carrying out its responsibilities.

This Practice Review Report presents the results of the practice reviews of assessments of performance information in annual reports. The Office conducts assessments of the performance information reported by three agencies annually. We reviewed the three assessments reported in 2005.

The practice reviews were conducted by an external consultant working with OAG staff.

Focus of the Review

Quality Management System Elements

The Office's Quality Management System (QMS) (see Appendix A) for Assessments of Performance Information in Annual Reports ensures that quality is built into the assessment process. Our practice reviews covered the following QMS elements that we considered to be medium to high risk:

- conduct of the assessment;
- consultation;
- resourcing; and
- leadership and supervision.

Process Controls

We looked at how the quality reviewers carried out their responsibilities for quality assurance.

Other

We reviewed the conduct of the assessments to determine whether the assessments are consistently carried out. We also interviewed staff within the Office of the Auditor General, staff at the three agencies, and external stakeholders, to obtain their views on whether the practice could be improved or made more efficient.

Rating system

We applied the following ratings to the assessments under review:

- compliance (expectations for the QMS element or other elements reviewed were met or exceeded); and
- non-compliance (the assessment deviated from the policy or expected practice).

Results of the review

Compliance with Quality Management System elements

We found that the three assessments complied with the Quality Management System elements that we reviewed.

Strengths

We noted the following strengths:

- assessment budgets and timelines were appropriately managed;
- assessment teams appropriately consulted the relevant Office specialists;
- the nature and extent of consultation with Quality Reviewers were appropriate; and
- the appointment of a Product Leader at the Assistant Auditor General level provides needed authority for the exercise of the Product Leader's role.

Opportunities for improvement—team level

Each of the assessment engagements we reviewed had one or more specific areas where practices could be improved. We discussed the opportunities for improvement with the responsible principals and assistant auditors general, who agreed with the suggestions. The suggestions for improvement do not apply to all the assessments that we reviewed.

Project management

Assessment budgets and timelines were appropriately managed. However, there were disparities in the proportion of management time spent on the three assessments. There is a need for clear guidance about the exercise of roles and responsibilities to ensure appropriate leadership as well as supervision of assessment work.

Planning

The legislation of one of the agencies provides the authority to carry out periodic assessments. The assessment team indicated that they have considered the pros and cons of changing from annual to less frequent assessments but have not explicitly addressed this issue in planning documents. The team should consider developing a strategy to move toward less frequent assessment of that Agency's annual report.

Team Response. Agreed. The assessment team will consider less frequent reporting once the performance reporting framework at the Agency is stabilized. The possibility of less frequent reporting was raised with the Audit Committee of the Agency involved and general support was received. A strategy will be developed to implement less frequent reporting commencing with the 2008 assessment, provided that the reporting framework remains unchanged, and that an unqualified assessment is given in 2007.

Opportunities for improvement—practice-wide

Planning

Our review noted that two of the assessments were conducted at a moderate level of assurance, while the other was conducted at a high level of assurance. The level of assurance should be consistent across the practice.

Product Leader Response. Agreed. The 2006 assessments of performance information were conducted at a consistently moderate level of assurance.

Cost of assessments

The costs of assessing the annual reports are significant. Assessment work begins on drafts that are less than final. Consequently, teams provide advice and feedback on multiple drafts. Strategies should be developed to help reduce these costs. For example:

- starting assessment work only when a “near” final draft of the performance report is provided by an agency, at the same time reducing the amount of advice and feedback given to the agency;
- continuing to build a strong cadre of performance measurement and reporting expertise to help carry out the assessment work;
- communicating frequently among the Product Leader, the Functional Responsibility Leader for Results Measurement and Reporting, and the assessment teams; and

- bringing assessment teams together every two or three years for a conference (chaired by the Product Leader) to share good practices and resolve difficulties.

Product Leader Response. Agreed. Some of the assessment teams conducted the 2006 assessments on more advanced drafts. The Product Leader, Functional Responsibility Leader for Results Measurement and Reporting, and assessment teams have met frequently over the last eight months in order to improve communication, share good practices, and resolve difficulties.

As well, steps that will be taken to improve the cost-effectiveness of our work are:

- achieving efficiency gains through improved methodology;
- establishing stretch targets for the resources to be spent on this work, beginning in the 2006–07 fiscal year; and
- eliminating the Functional Responsibility Leader assessment of each agency's report.

Consistency

The review noted that there are systems and practices in place to help ensure that criteria are interpreted and applied consistently across the three assessments. There were, however, some differences among the teams in assessment procedures. Differences were found in:

- the extent to which assessment teams developed detailed work programs for assessing performance information against criteria;
- the manner in which teams rated the significance of performance statements to keep accuracy work focused;
- the units of analysis used for breaking the assessments into manageable units;
- the number of team members involved in the assessment of the fairness criteria;
- the balance struck between the amount of work done on reliability and the work done on fairness;
- the weighting of criteria when rolling up assessment results; and
- communicating with entities regarding the terms of engagement.

There is a great deal of judgment involved in what is still a relatively new and evolving practice. The assessment methodology should be reviewed in order to improve consistency, in particular the role of the criteria and the sub-criteria.

Product Leader Response. Agreed. This issue has been addressed on an interim basis. Interim criteria have been developed and are refocused on fairness and reliability. This focus will be maintained in the revised OAG guide and will be

consistent with the Canadian Institute of Chartered Accountants Public Sector Accounting Board's Statement of Recommended Practice for Public Performance Reporting. Communication with the entities regarding the terms of engagement will be reviewed to ensure consistency.

Reporting

The nature and purpose of assessment reporting should be reviewed. The current assessment reports note that the legislation requires the Auditor General to assess the fairness and reliability of the information on the agency's performance with respect to the objectives established in the corporate business plan. However, while the assessment reports conclude on fairness and reliability, they do not clearly indicate the relationship to the objectives of the corporate business plan.

Product Leader Response. Agreed. The recently approved model assessment report requires that we assess the fairness and reliability of the performance information with respect to the objectives established in the corporate business plan. This report was used for the three 2006 assessments of performance information.

Manual for the Assessments of Performance Information in Annual Reports

The manual is in draft form and should be completed. In order to respond to the above suggestions for improvement, the manual should, at a minimum:

- provide guidance on roles and responsibilities to help ensure appropriate leadership and supervision;
- provide guidance on the level of assurance for conducting assessments; and
- promote greater consistency among teams in assessment procedures and practices in such areas as developing detailed work plans, rating the significance of performance statements, balancing the work done in relation to the two criteria of fairness and reliability, interpreting and applying criteria, and communicating with the agencies.

Product Leader Response. Agreed. As of spring 2006, the Assessments of Performance Information in Annual Reports became part of the Performance Audit Practice. As only practices are documented in manuals, this guidance will be documented in a separate guide.

Compliance with process controls

Quality reviewer

For all three assessments, the quality reviewers carried out their responsibilities with respect to quality assurance.

Opportunities for improvement—practice-wide

For one assessment, we noted that the quality reviewer was appointed late in the assessment. The quality reviewer should be appointed on a timely basis.

Product Leader Response. There is one quality reviewer for all 2006 assessments. The reviewer was appointed on a timely basis.

We also noted that the role and responsibilities of the quality reviewer need to be clarified and included in the manual.

Product Leader Response. Agreed. The role and responsibilities of the quality reviewer will be included in the new Guide on Assessments of Performance Information.

Other opportunities

Planning

During the interviews with Office staff, departmental staff, and stakeholders, some concerns were expressed regarding the usefulness of the assessments of performance information. OAG and agency staff could not point to any examples of their use. Some external stakeholders that we interviewed expressed a concern that the assessments were not being read or used.

The Office should consider holding discussions with the Parliamentary Committees involved, to determine whether they find the assessments of performance information a useful source of information or whether the product could be improved.

Product Leader Response. The Office will consider holding discussions with the appropriate parliamentarians concerning the usefulness of the assessments of performance information and whether the product could be improved.

Assessment-ready reports

The experience of the past several years in assessing performance information indicates that not all agencies were initially capable of producing high-quality reports. The Office expended a great deal of effort in verifying reports of poor quality. In the future, in much the same way as is being done with departmental financial statements, the Office should ensure that performance reports are of reasonable quality before the Office agrees to assess them. The Office should consider developing criteria that will allow it to determine whether any particular report is “assessment-ready.”

Product Leader Response. Agreed. Establishing a minimum level of quality for the performance reports before we agree to assess them is worthwhile. An alternative approach might be to have the organization’s internal auditors “sign off” on the draft reports as ready for OAG assessment. This would have the additional benefit of ensuring that internal audit is engaged with quality assurance for the reports.

Reviewing the options for future work

The practice review noted that there are significant costs to the assessments of performance information, and that the practice is focused on three performance reports every year, due to legislative requirements. Assessment team members believe that the Office has in fact made a difference and the three agencies’ performance reports have improved over time.

The Office should consider reviewing the options available to it for future work on assessments of performance information, and should establish a position for further action in the event that agency legislation comes up for renewal or amendment.

Product Leader Response. Agreed. The Office will review the options available to it and establish a position as a basis for future action.

Appendix A—Quality Management System

ELEMENTS OF THE QUALITY MANAGEMENT SYSTEM (QMS) FOR ASSESSMENTS OF PERFORMANCE INFORMATION IN ANNUAL REPORTS

Examination Management

Authority

Independence,
Objectivity, and
Integrity

Conduct of the
Assessment

Consultation

Security, Access,
and File Retention

People Management

Resourcing

Leadership and
Supervision

Respectful
Workplace

Performance
Management

Professional
Development

Continuous Improvement

Practice Review