

Office of the Auditor General of Canada

Practice Review Report
Annual Audit Product Line
Audits Completed in Fiscal Year 2004–05

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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 annual audits in 2005–06. This document reports the results of these reviews.

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 federal Crown corporations, other government entities, and territorial governments. The Office performs these financial audits according to Canadian Institute of Chartered Accountants (CICA) standards and Office policies and methodology.

Practice Review Objective, Scope and Approach

The objective of practice review is to provide the Auditor General with assurance that the Office's Quality Management System (QMS) for annual audits operates effectively to meet legislative requirements, professional standards, and the Office policies for annual audits.

SPPP selected three audits for review from the annual audits of financial statements with year-ends between March 2004 and March 2005. All three of these audits had March 31 year-ends. Two were audits of Crown corporations and other entities, and one was a departmental audit (a component of the annual audit of the summary financial statements of the Government of Canada). SPPP uses a risk-based approach to conduct practice reviews.

Conclusion

Based on the practice reviews performed, we concluded that the audits reviewed were carried out, in all significant respects, in accordance with the QMS elements under review (conduct of the audit, consultation, and resourcing). The QMS 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.

Good Practices and Opportunities for Improvement

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 the software provides. Further, we identified

opportunities for improvement that would allow the teams to better use the controls-reliance methodology.

We also identified opportunities for improvement related to the annual audit methodology to be considered practice wide. These included: clarifying the approach to testing application and management and monitoring controls; clarifying the approach for linking risks identified to audit approach and work performed; developing guidance on the preparation and use of the summary of audit assurance; and developing guidance for managing information of a permanent nature.

SPPP discussed the areas for improvement with the responsible audit principals, assistant auditors general, and product leaders, all of whom agreed with these suggestions.

Follow-up of Prior Year's Recommendations

We also followed up on prior year recommendations and found that the practice review recommendations relating to annual audits completed in fiscal year 2003–04, concerning the need for guidance for the analysis of potential fraud and error and for the quality reviewer, have been addressed.

Product Leaders' Response

We are pleased that the report concluded that the audits reviewed are in accordance with the Quality Management System elements and appropriate action has been taken on the recommendations of the prior year. Audit guidance related to wrongdoing and fraud was updated in February 2005 and for the quality reviewer was issued in January 2006.

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

We also agree with the practice-wide suggestions for improvement made in this report. We are pleased to report that guidance on control testing was issued in January 2006. Improvements on the use of risk analysis and summary of audit assurance templates, along with other documentation issues, will be addressed in the fall 2006 revisions to comply with the new CICA standard on documentation.