



Performance Audit Booklet Office of the Auditor General

Independence • Integrity • Impact



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Purpose of This Booklet

This booklet is intended to provide auditees with basic information regarding the Office of the Auditor General of Nova Scotia (OAG) and what to expect during a performance audit. It outlines the audit process and the Auditor General's expectations throughout the audit so you can prepare for the audit. A better understanding of our audit process will help the audit go smoother and assist your staff in understanding our requests.

While the Office also completes financial statement audits, the process involved is quite different from performance audits and is not covered in this booklet. Financial audit is governed by Canadian Auditing Standards (CAS) whereas performance audit is governed by Canadian Standard on Assurance Engagements (CSAE) 3000 or 3001.

For purposes of this booklet, "entity" refers to the entity which is the subject of the audit, whether that is an auditable entity, a funding recipient, or a public contractor (see Auditor General Act, Section 2 (b), (c), (m)). These terms are discussed further throughout the booklet.

General Information – Office of the Auditor General

Who We Are and What We Do

The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The Auditor General helps the House to hold the government to account for its use and stewardship of public funds.

Auditor General Act

The Auditor General Act establishes the Auditor General's mandate, responsibilities and powers. The current Act came into force on December 10, 2010. See <http://www.oag-nb.ca/our-act> for the full text.

The Auditor General Act provides the Office of the Auditor General with a modern performance audit mandate to examine entities, processes and programs for economy, efficiency and effectiveness and for appropriate use of public funds. It provides the Office a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as regional school boards and health authorities, as well as funding recipients external to the provincial public sector. This includes public contractors who deliver programs or services on behalf of the government.

The Act also stipulates that the Auditor General shall provide an opinion on government's annual consolidated financial statements; and provide an opinion on the revenue estimates in the government's annual budget address.

Auditor General's Authority Under the Act

Section 14 of the Auditor General Act gives the Auditor General unrestricted access to all records of the entity. This right is not limited and includes information which would otherwise be considered confidential. Providing such information to the Auditor General under the Act does not constitute a waiver of privilege or immunity.

Who is Subject to Audit

The following types of entities are subject to audit by the Auditor General. (See Section 2 of the Auditor General Act for a full listing.)

- Government departments
- Government agencies
- Government trusts
- Organizations of which the majority of board members are appointed by the Governor in Council or whose board is accountable to the Province
- Public contractor
- Not-for-profit organizations delivering programs or services on behalf of government
- Corporations or non-government organizations receiving government funding

Accountability of the Office

The Auditor General is an officer of the House of Assembly, appointed by the House for a ten-year term. He or she reports to the House of Assembly. The selection of an Auditor General by government must be ratified through a majority vote of the legislature. The Act also vests sole authority for removal of the Auditor General with the House.

The Office of the Auditor General adheres to the auditing standards adopted by the Chartered Professional Accountants of Canada. The Office is subject to periodic reviews by the Chartered Professional Accountants of Nova Scotia.

The Office also engages other Canadian legislative audit offices to review its audits.

A Committee of the House of Assembly makes recommendations regarding the annual budget of the Office. Following year end, the Office's financial statements are audited by a public accounting firm, approved by the Speaker of the House of Assembly. The audit report is addressed to the Speaker of the House of Assembly. Those statements are posted to the Office's website and summarized in the Office's annual report on performance.

The Office submits an annual business plan and performance report to the House of Assembly.

Confidentiality of Information

All staff are required to sign an oath of confidentiality upon commencing employment with the Office as well as annual representations of the auditor's independence and objectivity. Since the Auditor General Act addresses confidentiality, OAG staff do not sign separate agreements with auditees.

The Office's audit working papers, as well as other information contained in files, are exempt from disclosure under the Freedom of Information and Protection of Privacy Act. The Auditor General cannot be required to produce this information to the Legislature or one of its committees.

Office Structure

The Office of the Auditor General has approximately 30 audit and administrative staff. The Office is organized into two teams in the following categories.

- Performance audit team
- Financial audit team

Performance Audits

What is a Performance Audit?

A performance audit examines programs, processes, activities or the overall performance of an entity. Performance audits may include the following areas.

- Governance, economy, efficiency, and effectiveness
- Performance monitoring and reporting
- Internal control and systems
- Compliance with policy, legislation or appropriations
- Stewardship over and appropriate use of public funds and other resources and property
- Maintenance of essential records

Occasionally, our audit work may lead us to conclude that a more detailed, forensic audit is necessary.

How are Performance Audit Topics Selected?

The Office of the Auditor General maintains a three-year audit plan. Senior Office staff assess potential audit topics based on the following Office priorities.

- Serve the House of Assembly
- Consider the public interest
- Improve government performance
- Enhance government financial reporting

The three-year plan is a living document; it is continuously updated as situations change and audits move up or down the priority list.

Audit topics may be generated in a number of ways.

- Senior Office staff may become aware of areas of higher concern based on current issues and each member's knowledge of the portfolio he or she is responsible for. Significant program areas are likely to be audited periodically as resources permit.
- A deputy minister or other senior government or agency staff member may bring a matter to our attention.
- The Public Accounts Committee may request this Office consider an audit.
- Under certain circumstances, Executive Council may require the Office to complete an audit.
- Members of the public may bring matters to our attention which we determine warrant an audit.

What to Expect During an Audit

The Auditor General's Rights to Information

Section 14 of the Auditor General Act gives this Office the right of unrestricted access to all records of the audited entity. This includes copying information as required for an audit. Auditees are required to provide OAG staff with information in a timely manner.

OAG staff contact auditee staff directly as needed for information or to arrange meetings. We do not copy a single entity contact on all communications and requests.

OAG staff often have access to information which would otherwise be considered confidential. This includes records such as payroll information, complaint files, health records, legal files, and Cabinet submissions. Under Section 14(5) of the Auditor General Act, a disclosure to the Auditor General is not considered a waiver of privilege.

The Act also gives the Auditor General the authority to compel attendance at meetings and to compel production of documents. Section 11(3) of the Act gives the Auditor General the same privileges and immunities as a Supreme Court judge.

Although the Auditor General has free access to all information, there are limited situations in which information may be privileged, for example a legal opinion from the audited

entity's lawyer. In these instances, information must be provided to OAG staff. Privileged information will not be disclosed in the Auditor General's public report without permission. The Act contains a dispute resolution mechanism for those instances in which the Auditor General and the audited entity cannot agree whether information is privileged.

Audit Timing and Everyday Work

We realize that the audited entity's day-to-day work must continue during an audit by the Office of the Auditor General. We appreciate that this can cause difficulties for the auditee from time to time. However, in order to complete our audits in a timely manner, we need to have quick turnaround times for audit requests. We strive to reach a balance between meeting our reporting deadlines and providing time for entities to meet routine demands and deadlines.

During any audit, OAG staff need to meet with key auditee staff. We expect to be able to book meetings in a relatively short timeframe, usually within a few days of making the request. While we sometimes meet with two or more staff jointly, there may be situations in which we want to meet with each staff member individually.

Similar to the timeframes for booking meetings, OAG staff expect to receive information promptly. OAG staff will assign a deadline for the receipt of information. If you feel you cannot meet the deadline, it is important that you communicate this to the OAG staff member who made the request. Staff will work with you to arrive at a revised deadline if possible. We appreciate that certain requests may require more effort; however OAG staff must ensure that the audit completion timelines are not compromised due to a lack of information.

FOIPOP and the Auditor General

This Office's files, audit records and other records are confidential and exempt from the Freedom of Information and Protection of Privacy Act (Section 13(2) Auditor General Act).

Should you receive requests under the FOIPOP Act for information you received from this Office, you cannot release the information. It is confidential and should not be shared outside your entity, except with your Minister. Examples of the types of information which are exempt include, but are not limited to, the following.

- Audit plans
- Meeting notes provided by OAG staff for factual verification
- Draft findings
- Draft reports

If you receive a request for information under the FOIPOP Act and you are uncertain how to respond, you should contact the Deputy Auditor General or Assistant Auditor General responsible for audits of your department or agency.

OAG Treatment of Auditee Information

We maintain confidentiality of information received during audits, except as it relates to disclosure under the Auditor General Act in our reports. OAG staff cannot be compelled to produce information or give testimony except related to the Act or under the Criminal Code.

All Office staff sign an oath of confidentiality upon commencing employment with the Office; each year staff sign a representation that they are aware of the Office's requirements.

Records which identify individuals are not retained after the audit period. Sensitive personal information, such as health records information, are removed from audit files, and records are returned or copies destroyed after the audit report has been released.

Reporting Audit Results

The Auditor General reports the results of performance audits usually twice each year, in the spring and fall. The Office also produces a report on financial matters; this is generally released in the fall of each year.

The Auditor General Report is public as soon as it has been tabled, or deemed tabled, in the House of Assembly. Once tabled, the report is available on our website at <http://www.oag-ns.ca/>.

The Performance Audit Process

Initial Audit Contact

OAG staff begin planning performance audits between six to 12 months before the planned reporting date. The Deputy Minister or Chief Executive Officer will receive a notification letter from the Auditor General, with a copy to the Minister, when we are at the earliest stages of gathering information on an audit topic. This letter requests a key contact in your organization whom we can contact for further information to allow OAG staff to plan the audit.

Near the start of the audit, we typically request an initial meeting to provide OAG staff with an overview of the topic areas. We may also ask for detailed information to be provided at this meeting or shortly afterwards.

The Office of the Auditor General uses an electronic audit file package; we appreciate receiving as much information as possible in electronic format (MS Word, Excel or pdf as appropriate). Ensuring the secure transfer of sensitive information is discussed further in the Audit Evidence section later in this booklet.

Audit Survey Work and Developing the Audit Plan

Each performance audit starts with an audit survey stage during which OAG staff gather information to gain an understanding of the audit area. At this point, the high level audit topic has been selected. Our audit survey work allows us to narrow our focus to those areas we wish to audit in detail.

Following the initial meeting, OAG staff continue to complete the audit survey. This includes meeting with key auditee staff and developing an understanding of how various entity processes work. OAG staff gather documents, such as policy manuals, significant contracts, and internal or external reports, for review and assessment.

The auditee should expect requests for a lot of information during this time. Timely receipt of information and scheduling of meetings during the survey stage is key to ensuring the audit can meet the established reporting timelines.

Summary Audit Plan

After reviewing the information gathered during the survey stage, OAG staff develop a summary audit plan. This plan is reviewed and challenged by an in-Office team including all members of the Office's senior management group. There is often overlap between survey work and audit planning as staff refine the areas selected for audit.

OAG staff provide a summary audit plan to the auditee for discussion. You can expect the summary audit plan to include the following information.

- Overall audit question – The overall audit question captures the main reason for the audit; it represents the most significant question we want to answer as a result of our audit work.
- Lines of enquiry with detailed objectives and criteria – An audit is organized into sections called lines of enquiry. Each line of enquiry has an objective(s) and criteria which state what the audit team plans to assess. We assess your operations against the criteria we have established. Criteria may come from best practices, industry standards, or we may develop them ourselves.
- Audit timing – This section provides general information on audit fieldwork dates and the expected timing of when the audit results will be reported publicly in the Report of the Auditor General.
- List of audit team members and contact information

Senior entity and program staff should review the summary audit plan before meeting with OAG staff. If you have any concerns with the audit plan or timing, these should be discussed at the meeting.

If you feel the criteria are not appropriate for the audit subject, please be prepared to discuss why and to provide alternate sources of criteria for us to consider.



The final decision regarding audit scope, approach and criteria rests with the Office. We may make changes as we deem appropriate, including considering requests from the auditee to include certain matters in the audit scope.

At this stage, for those entities with a board of directors, we are available to meet and discuss the upcoming audit if the board members wish.

Following the audit plan meeting, we will seek acknowledgement (via email) that entity or program management agree the criteria are appropriate for the audit subject matter. At the end of the audit, we obtain a signed management representation letter from senior entity management. Among other things, this letter notes your agreement with the criteria so if you have concerns, it is important to discuss these as early in the audit process as possible. Audit standards require us to report instances in which we are unable to reach agreement with an auditee regarding criteria.

Fieldwork

During the fieldwork phase, OAG staff will visit your offices for document review, meetings with your staff, and testing of files. The Audit Principal will discuss expected time at your offices and any space requirements, if necessary. OAG staff may be on site for an extended period. This could range from two to four weeks or potentially longer depending on the size and complexity of the audit. If we encounter IT issues which make it difficult for us to connect to our Office while working on site, we may need the assistance of auditee IT staff.

Audit Evidence

Auditing standards require that auditors obtain sufficient, appropriate audit evidence. You can expect OAG staff to ask for original documents, evidence of sign-off for approvals, evidence of review of files, etc. Corroborating evidence for verbal information provided in meetings will be requested. Keep in mind that, from an audit standpoint, if there is no evidence a procedure was completed, we cannot report the procedure was in place or operating as intended.

Your Data and the Audit

As part of our audit work, staff will often request data from your IT systems for analysis or sample selection. Depending on the audit, OAG staff may request specific data fields or alternatively, may request all available data. Generally the data will relate to the period covered by our audit work. We may require a contact in your IT department to coordinate the request.

OAG staff can discuss options for securely transferring the data. These include: using a secure file transfer site, password-protected portable drives, etc. We suggest you avoid using email to transfer sensitive data due to concerns with confidentiality; file size may also be a factor.

We may also require direct access to your systems. The audit principal will advise you if this is necessary. Access should be read-only to ensure there is no risk of changing live data. If read-only access is not possible, this should be discussed with the audit principal. An access termination date should be agreed upon by your IT staff and the audit principal.

We maintain the confidentiality of your data. The results of any data analysis or testing we complete are reported in aggregate and generally do not identify a particular file or client. Following our audit, we can destroy the data or can return it to you for destruction (if transferred via portable drive for example). Any data which must be retained as part of our audit file is stripped of personally-identifying data once the audit report has been published.

Clearing Audit Findings

As we complete our audit work, the audit team will prepare detailed audit findings and provide these for your review and comment. This is intended to clear the facts resulting from our audit. The draft report will be based on our findings.

Audit findings do not necessarily include our final audit conclusions and may contain more detail than the report. Some findings may not be reported. When you review the findings, if you feel something is factually incorrect or that there is additional information which we should be made aware of, please ensure this is communicated as soon as possible. In order to update or change findings, we will require supporting documentation.

Draft Audit Report

Near the end of the audit, we will produce a draft report for review and discussion. There are typically three versions of the draft report: initial draft, revised draft following auditee discussions, and the final draft for publication. Auditee management will receive a copy of each of these report drafts.

As noted above, the initial draft will be based on the findings you already received. Since the report ties together groups of findings, there may be some new issues which come to light at this stage.

If there is more than one auditee, the initial draft will only include comments relevant to that auditee. For example, if we audit two school boards, the initial draft for each board will include only those comments which relate to that entity. This provides an opportunity for the auditee to identify any concerns with factual accuracy before the draft report is shared with others. The revised report is generally shared with all auditees to allow readers to gain a better understanding of the report.

The audit team will meet with auditee staff to discuss the draft report. If you feel there are factual inaccuracies, you should have supporting documentation available for our review immediately after the meeting.

Draft reports also include recommendations for improvement which we will discuss when we meet with you. It is important that you understand the recommendations so that you can make an informed decision regarding whether you agree or disagree with the recommendation. We will follow up on the implementation status in two years.

A revised draft will be provided shortly after we meet to discuss the report. For entities with a board of directors, if board members would like to meet with us, we suggest waiting until the revised report draft is available. This allows factual matters to be corrected before OAG staff meet with the board.

Auditee Response to OAG Recommendations

We ask all auditees to provide a response to each recommendation related to the auditee. Your response will be published in the chapter. If a recommendation is directed to more than one entity, you should each provide a response for publication.

Your response should indicate whether you agree or disagree with the recommendation, whether you intend to implement the recommendation, and timelines for implementation if available. If you disagree with the recommendation or do not intend to implement, please indicate the reasons in your response.

We ask that you limit your response to 150 words. We may paraphrase responses which exceed this limit. We will provide space at the end of the report for you to make overall comments if you wish; we ask that you keep any overall comments concise (up to 200 words) as you will have already responded to each recommendation.

We establish a response deadline for each report; someone from the audit team will communicate this deadline when you receive the draft report. We suggest you begin preparing your response based on the initial draft. If we do not receive your response by the deadline, we will publish the report with a note that your response was not received on time.

Sample Recommendation with Response

Recommendation 4.1

The Department of Health and Wellness and the Department of Community Services should complete and implement their new policy manual.

Department of Community Services Response: *DCS accepts this recommendation and is currently working with DHW to finalize revisions to the policy manual. The revisions to the policy manual will be completed in December 2011 and implemented within this fiscal year.*

Department of Health and Wellness Response: *Department of Health and Wellness agrees with this recommendation and will continue to work with Department of Community Services (DCS) on the new Protection for Persons in Care policy*

manual. It is anticipated that this work will be completed in December 2011, and implementation will follow within this fiscal year.

Final Report Draft

There may be minor editorial changes to the revised draft report as it goes through our internal edit process. Once the edit process has been completed, a final report draft will be provided to the Minister and Deputy Minister, or Chief Executive Officer, where applicable.

Shortly before publication, the Auditor General and Deputy Auditor General or Assistant Auditor General meet with the Deputy Minister to discuss the report. By this time, the document is in the publication process and cannot be changed. Since your organization will have received the initial and updated report drafts, any significant concerns should be brought to the Deputy Auditor General's or Assistant Auditor General's attention earlier in the report clearing process.

Each audit report will comprise one chapter in a larger Report of the Auditor General.

Tabling the Report with the House of Assembly

Each Report of the Auditor General is tabled in the House of Assembly. You will be informed of the tabling date well in advance.

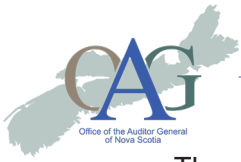
The tabling process varies. When the House is not sitting, you can generally expect the report will be public at 9 a.m. on tabling day. If the House is sitting, the report will be public once tabled in the House. This usually happens shortly after that day's session begins. Once the report has been tabled, electronic copies will be available on our website.

On tabling day, the Auditor General and senior staff from our Office meet in-camera with the Public Accounts Committee to brief the Committee on the report contents. Following the in-camera briefing, the Auditor General will hold a press conference at which the Auditor General will read a prepared statement and take questions from the media. If the House is sitting, information provided at both the PAC and media briefings is embargoed until the report is tabled in the House.

The Auditor General and senior Office staff also attend a Public Accounts Committee meeting which is open to the public to respond to the Committee's questions regarding the report chapters. This meeting is typically held one week after the report release date.

Follow-up of Recommendations

Two years after a report is published, we follow up our audit recommendations to assess the progress towards implementation. We feel that two years is sufficient time for substantial implementation of recommendations.



The results of our performance audit follow-up work are typically published in a separate report.

We may continue to follow up those recommendations which are not complete in future years.

Other Information

For additional information on the Office of the Auditor General, please visit our website at www/oag-ns.ca.

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