

GUIDANCE

Auditing the Efficiency of a Regulatory Inspection and Enforcement Function



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Auditing the Efficiency of a Regulatory Inspection and Enforcement Function – Applying the Concepts of the Practice Guide to Auditing Efficiency

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Table of Contents

Purpose of this Document.....	4
Characteristics of a Regulatory Inspection and Enforcement Function.....	5
Why Focus on Regulatory Inspection and Enforcement?	8
Factors Affecting the Efficiency of Regulatory Inspection and Enforcement Functions.....	9
Planning the Audit	10
Obtaining Knowledge of Business	10
Selecting the Audit Approach and Objectives	17
Sample Objectives with a Systems Emphasis	19
Sample Objectives with a Results Emphasis.....	19
Sample Criteria with a Systems Emphasis	20
Sample Criteria with a Results Emphasis.....	25
Conducting the Examination Phase	27
Selecting Audit Procedures	27
Considerations Relating to Reliance on Information Produced by the Auditee	30
Reporting Audit Results	31
References	32

Purpose of this Document

This document is a companion to the [Practice Guide to Auditing Efficiency](#). It is a sample application of the Practice Guide to a common function in government: regulatory inspection and enforcement. The purpose of the document is to provide guidance to auditors on how to apply the concepts presented in the Practice Guide to a specific audit topic.

This document will be most valuable to auditors who are planning an audit of the efficiency of a regulatory inspection and enforcement function because it provides relevant examples of issues, objectives, criteria, and audit procedures. For auditors who are planning to audit the efficiency of another government function, the description of the issues, concepts, and other considerations will be relevant but the sample criteria and audit procedures may not apply to the function being audited.

Characteristics of a Regulatory Inspection and Enforcement Function

Regulatory inspection and enforcement functions are found throughout the public sector, at all levels of government. The primary objective of such functions is to ensure compliance with legislation, regulation, and policies.

Typically, inspection and enforcement functions consist of the following major components:

- **Identification of the regulated population** covered by the legislation, regulation, or policy. Stratification of the population according to characteristics such as size, type of industry, or presence of major risk factors is an important step that facilitates the management of inspection and enforcement programs.
- **A monitoring plan** that lays out how compliance in the population covered by the legislation, regulation, or policy will be monitored. This plan should be based on a risk assessment and include inspection strategies (for example, coverage, frequencies) and information requirements (for example, documents submitted by members of the regulated population).
- **Management plans** that cover staffing levels, budgets, and information technology. These plans should include both long-term strategic goals and short-term operational objectives.
- **Implementation of the plans** through performance of inspections, review of documents submitted, and so on.
- **Making decisions on whether compliance has been achieved** or whether action is required per the legislation or regulations. Actions could include sending letters indicating remedial steps to be taken, enforcing penalties, filing charges through the court system, and shutting down non-compliant operations.
- **Taking action** by implementing the decisions noted in the previous step.
- **Reporting** various aspects of program performance including statistics and financial measures.
- **Follow-up action** to ensure violators have completed action requirements.
- **Continuous improvement** and innovation to ensure the program is current and based on good practices.

Figure 1 illustrates how the main components of an inspection and enforcement function are integrated to achieve the program objective. It also shows the components classified into the standard Plan-Do-Check-Act Management Model.

Figure 1 – Components of an Enforcement Program



The public sector is responsible for the regulation of a wide variety of economic sectors and activities. In order to enforce applicable regulations, responsible entities must develop effective inspection and compliance programs. The following list provides examples of regulations and standards that are commonly the object of inspection programs:

- regulations of financial institutions;
- building standards;
- labour standards;
- public health standards (including water quality standards);

- food safety regulations; and
- fire safety regulations.

Laws and regulations usually provide enforcement programs with a range of options to deal with non-compliance, depending on the severity of the non-compliance. Options could include:

- issuing orders to rectify minor deficiencies noted in inspection reports;
- cancelling a licence or permit;
- shutting down non-compliant operations; and
- laying criminal charges in the most serious cases.

Why Focus on Regulatory Inspection and Enforcement?

Inspection and enforcement functions are common at all levels of government and make a significant contribution to achievement of important government objectives, including public safety.

The focus of an audit of the efficiency of these functions is to determine whether the resources available generate optimal enforcement. The key challenge for inspection and enforcement programs is to balance the size of the regulated population, the relative risk that each member of the regulated population poses, and the usually limited number of people and resources devoted to inspection and enforcement activities.

When governments are attempting to find cost savings, inspection and enforcement program budgets may be targeted for reductions because they are viewed as administrative and a lower priority than programs providing direct funding or services to beneficiaries. Budget reductions underscore the need to maximize efficiency in order to maintain the same level of activity with fewer resources.

Inspection frequencies are often laid out in regulation or policy. However, desired frequencies, or population coverage targets, may not always be met and enforcement programs can become ineffective. In such cases, program management may believe deficiencies in coverage are due to insufficient program budgets and staffing levels, but inefficiencies could also be a major factor leading to program ineffectiveness.

Staff and information are two large components of the inspection and enforcement function. The potential to better utilize staff and information technology makes this function an ideal candidate for an audit of efficiency.

Factors Affecting the Efficiency of Regulatory Inspection and Enforcement Functions

The largest inputs for regulatory inspection functions, aside from financial resources, are usually staff and information systems. Staff costs (including payroll, training, travel, and office space) would typically relate to inspection, administration, and, in some cases, research activities.

Information systems include hardware and software related to systems supporting various components of inspection programs, such as databases about the regulated population and electronic records of inspection activity and results. Information systems may also include technology to facilitate the inspection process such as hand-held devices to record inspection results and report-writing templates and software. Such technology can help to reduce manual processes and duplication of effort. It may contribute to cost savings or increase the volume of inspection activity generated from the same resource base.

Audits of efficiency can include the examination of the utilization of staff and information technology. However, while these topics are important, the main factor with an impact on efficiency is whether management has taken a risk-based approach to resource allocation. If management does not have a good understanding of the regulated population and regulatory risks, and has not allocated resources based on a thorough risk assessment (that is, resources are not allocated based on priority to high-risk areas), it is unlikely that optimal enforcement is being generated from the available resources.

Planning the Audit

Obtaining Knowledge of Business

During this phase of the audit process, auditors need to acquire a sound knowledge of business and an understanding of the risks facing the efficiency of the inspection and enforcement function.

Table 1 lists key questions that auditors can use to develop their knowledge of business. These questions are based on the general questions included in the [Practice Guide to Auditing Efficiency](#) and have been adapted and expanded to reflect a regulatory inspection and enforcement function. (Additions to the questions and risks in the Practice Guide are shown in **Table 1** in italics.) Note that the questions have been classified according to the seven functional areas enabling efficiency described in the *Practice Guide to Auditing Efficiency*.

Table 1 - Examples of Knowledge of Business Questions for an Audit of Efficiency Focused on a Regulatory Inspection and Enforcement Function

Potential Risks to Efficiency	Questions
Management activity #1 – Commitment and tone from the top	
<ul style="list-style-type: none"> ▪ <i>The organization is concerned with the effectiveness of the inspection and enforcement function, but not with its efficiency (that is, it exhibits little concern for ratios of resources consumed to outputs or outcomes).</i> ▪ Organizational culture does not stress the need for efficiency. ▪ There is no (or limited) internal audit function. ▪ Senior management challenge of the status quo is not sufficiently rigorous. 	<ul style="list-style-type: none"> ▪ Has senior management created a culture of efficiency? How has it communicated its commitment to the organization's personnel and to the public? What have been management's actions and messages? ▪ Has senior management established expected results and standards for efficiency, complete with targets and indicators? If yes, how were they established and what are they? ▪ Has the organization set baselines for the cost, quality, and level of service for each of its main services and activities? If so, what are they? How were they established? ▪ <i>Have performance targets for the inspection and enforcement function been identified? For example, has the entity defined the number of inspections to be performed in a given time period, and the time required to perform an inspection?</i> ▪ <i>Has management set targets for improvement in the efficiency of the inspection and enforcement function? For example, are there plans to increase the number of inspections performed in a given period, or to decrease the time required to finalize an inspection or an inspection report?</i> ▪ Does the organization have an internal audit function? If so, does its mandate specifically refer to efficiency? Have any recent audits of efficiency been conducted?

Potential Risks to Efficiency	Questions
	<ul style="list-style-type: none"> Is there an up-to-date policy manual specific to the inspection and enforcement function?
Management activity #2 – Strategic planning	
<ul style="list-style-type: none"> Monitoring and enforcement strategy is not based on a thorough analysis of the regulated population and risk assessment. Opportunities for shared services have not been explored. Senior management challenge of the status quo is not sufficiently rigorous. 	<ul style="list-style-type: none"> Has management identified the regulated population? Has management analyzed the population to provide key statistics on population size, location, composition, and so on? Is there a high-level enforcement and monitoring strategy setting out the approach to determining and monitoring compliance? Is the monitoring strategy based on a sound risk assessment, including a thorough identification and analysis of the regulated population? How does the strategic plan reflect the importance that the organization is placing on efficiency? Does the plan reflect specific, strategic efficiency initiatives in key areas such as shared services, human resources, procurement, asset management, IT systems, and business process redesign? Has the organization assessed the risks and potential consequences of inefficient operations? Has the organization assessed the feasibility of switching to less costly methods including shared services (<i>particularly with other inspection functions in government</i>), rationalizing the range of goods or services provided, and restructuring the organization, where appropriate, to function more efficiently?
Management activity #3 – Operational planning	
<ul style="list-style-type: none"> Resource budgets are not based on the level of inspection and enforcement activity. Organizational culture does not stress the need for efficiency. Personnel are not deployed to foster efficiency. Inspection staff are not fully utilized. 	<ul style="list-style-type: none"> Does the organization have service level standards? Has the organization identified and analyzed the input costs for all its major services and programs? Does the organization have information on the unit costs of delivering its main services and how the unit costs are changing over time? Does the entity collect and analyze cost information for major components of the enforcement strategy? For example, is the cost of performing an inspection collected and monitored? Does the organization have information on how costs change in response to changing levels of activity?

Potential Risks to Efficiency	Questions
<ul style="list-style-type: none"> Costs of activities and programs are not known, or are not regularly collected and reviewed. 	<ul style="list-style-type: none"> What are operating budgets and resource levels? Are operating budgets established based on unit costs or performance standards (for example, output/input ratios), or on historic funding levels? If the budget is based on unit costs or performance standards, what are the costs or standards reflected in the current budget? <i>How is the budget for the enforcement function established? Is it based on historical amounts, or on the level of activity in inspection and enforcement programs?</i> What are full-time equivalent (FTE) resource levels in relevant business units? How does the organization optimize the allocation of its personnel to its different services or business units? For example, does it use staffing formulas or other allocation methods? Does the allocation method consider workload or production levels? How does the organization maximize the utilization of allocated personnel to achieve its operational and strategic goals? For example, is staff utilization monitored? How is it monitored? <i>Is staff utilization data collected and monitored? Are staff utilization targets met?</i> <i>Is there a staff scheduling system? If so, does it provide for optimal utilization of staff?</i> <i>Are there defined staff utilization standards or guidelines? For example, staff might be required to spend a minimum of X percent of their time in the field performing inspections, a maximum of X percent writing reports, and a maximum of X percent on administrative tasks.</i> Are there required competencies for all staff? Does staff meet the required competencies? Have any competency gaps been identified? If so, is there an identifiable cause for the gaps (such as the fact that the labour market cannot meet demand)? Has the organization identified clear roles and responsibilities for managers and personnel delivering on efficiency objectives? If so, provide examples. Do senior management performance contracts (setting out annual performance objectives) include specific targets and measures related to the efficiency of the programs or services under a manager's control? If so, provide examples. Are incentives used to encourage managers and personnel to improve efficiency and meet established targets? If so, provide examples.

Potential Risks to Efficiency	Questions
	<ul style="list-style-type: none"> What type of training is provided to managers and personnel in relation to efficiency?
Management activity #4 – Project and operations management	
<ul style="list-style-type: none"> <i>Inspection and enforcement operations are not managed and conducted with due regard to efficiency.</i> Controls are excessive in relation to similar well-managed organizations. Program design does not support efficiency. Standards of service are not met. 	<ul style="list-style-type: none"> Does the organization have documented operations and/or project management systems and practices that demonstrate due regard to efficiency? How does the organization optimize its available production capacity, facilities, equipment, and personnel to produce the targeted volumes of outputs (goods and services)? For example, are there systems for monitoring the utilization of major resources (<i>such as staff and information systems</i>)? <i>Are resources targeted to the most significant regulatory risks? For example, can management demonstrate how resource allocation is connected to the risk assessment?</i> <i>Where is staff geographically located? Why? Does the location of staff correspond to the location of the regulated population?</i> <i>How is office space allocated to staff? Does each staff have office space, or do field staff share office space to promote efficiency?</i> <i>Are there clear policies on travel and administrative expenses and do they incorporate due regard to efficiency?</i> How does the organization measure performance and efficiency? What are the key performance indicators and targets related to efficiency? Are targets and standards being met? Does the organization have means of tracking the performance and efficiency of operations where the outputs are difficult to measure? For example, does the organization monitor achievement of milestones and target dates? Has the organization performed an assessment of controls over efficiency? If so, did the assessment include comparisons with other organizations?

Potential Risks to Efficiency	Questions
Management activity #5 – Information technology (IT) systems	
<ul style="list-style-type: none"> Systems and processes do not make effective use of information technology. 	<ul style="list-style-type: none"> What IT systems are in place that have as their objective the enhancement of efficiency? Has the organization explored and assessed opportunities to use IT technologies (such as automation, online services, electronic documentation systems, and paperless environment) to improve the efficiency of its activities and services? Have such systems been implemented? Are IT systems shared with other inspection and enforcement functions in government to reduce costs? How is information on the results of inspections collected and stored? (Consider manual and automated processes.) Is information technology used to its full potential? Can information on particular cases be retrieved quickly? Do inspectors have the tools to enable them to complete and document inspections efficiently? For example, do they use automated checklists, templates, and automated report generators to increase efficiency and eliminate duplication?
Management activity #6 – Performance monitoring and reporting	
<ul style="list-style-type: none"> There is a lack of attention to the efficiency of inspection and enforcement operations. There is a lack of performance information or insufficient attention to available information. 	<ul style="list-style-type: none"> Does the organization monitor, and report on, the efficiency, quality, and level of service of the main services it delivers? How and how often is this reporting done? Does the entity have performance information on its inspection and enforcement activities, such as: <ul style="list-style-type: none"> numbers of inspections performed; results by type of actions taken when non-compliance was found; and inputs utilized, such as number of inspectors and funds spent by major category? Does the organization have information to show how efficiency, quality, and levels of service have changed over time for the services it delivers? How have key indicators changed over time? Is the entity becoming more or less efficient? Consider the ratio of inputs (financial resources, staff) to outputs (enforcement activity) over time. Does the organization have information to show whether efficiency

Potential Risks to Efficiency	Questions
	<p>targets and standards are being met?</p> <ul style="list-style-type: none"> Does the organization have a clear strategy for benchmarking each of its main services in order to assess their relative efficiency? Has the type of benchmark information required been clearly defined? What are the benchmarks? <i>Does the entity benchmark key aspects of inspection and enforcement activities against relevant comparators? When performance is inferior to benchmarks, is there evidence that actions are being taken to improve performance?</i> Has the organization found any barriers in providing and obtaining benchmarking information? What are the strategies for overcoming any barriers? Does the organization regularly report progress against its efficiency objectives and initiatives? To whom does it report? Is the organization able to demonstrate the efficiency gains achieved from individual projects? How have these gains improved the services delivered? Do reported efficiency gains include information on upfront investments and recurrent costs incurred in delivering efficiency gains?
Management activity #7 – Continuous improvement and innovation	
<ul style="list-style-type: none"> Opportunities for shared services (<i>particularly with other inspection operations in government</i>) have not been explored. Systems and processes do not make effective use of information technology. Senior management challenge of the status quo is not sufficiently rigorous. 	<ul style="list-style-type: none"> Does the organization periodically review its efficiency? If so, how is this done? Is a review of options for reducing waste and removing unnecessary activities conducted? Has the organization identified and assessed the merits of alternative service delivery methods and models as potential means of increasing its efficiency? <i>Has the organization examined alternatives to inspection, such as submission of incident reports by regulated entities or individuals considered to be low risk?</i> <i>Has the organization examined the impact of reducing the frequency of inspections in the low-risk segment of the regulated population?</i> Has the organization assessed opportunities for efficiencies that could be achieved through better collaborative arrangements (such as pooling of resources, removal of duplication, and shared services)? <i>Have opportunities for shared services been explored? For example, are IT systems shared with other enforcement functions in government? Has the potential for sharing inspectors with other</i>

Potential Risks to Efficiency	Questions
	<p><i>government programs (that is, inspectors performing multiple inspections while visiting a site) been explored? Are common functional activities (such as human resources management, financial management, and information technology) shared with other government organizations?</i></p> <ul style="list-style-type: none"> Does the organization know what continuous improvement models and frameworks are being used in similar public sector <i>inspection and enforcement</i> organizations?

Source: Many of these questions have been adapted from Northern Ireland Audit Office's [Improving Public Sector Efficiency: Good Practice Checklist for Public Bodies](#) (2010), as well as from recent audits of efficiency.

In addition to understanding key risk areas, auditors will also need to collect and analyze basic information on inputs, outputs, and outcomes during the planning phase of the audit.

Collection and analysis of information on inputs (such as financial and human resources) and outputs (such as inspection coverage and frequencies, and regulatory actions taken) will help auditors to determine whether there are indications of inefficiency. During this preliminary phase of the audit, auditors would not perform a detailed benchmarking exercise; rather, they would ask program management for its own analysis. If management has not been analyzing this information, or there is indication of declining input-output ratios over time, or performance is below relevant benchmarks and targets, then there would likely be value in conducting an audit of efficiency.

Obtaining a basic understanding of a program's effectiveness (achievement of objectives or outcomes) is key to determining whether the program's major challenges are related to efficiency or to effectiveness. If the program is not meeting its objectives or targeted outcomes, then auditors might be well advised to focus on determining the root cause of the ineffectiveness in addition, or as an alternative, to doing an efficiency audit.

Selecting the Audit Approach and Objectives

When auditors have developed an adequate knowledge of the inspection and enforcement function and determined that there are efficiency concerns justifying an audit, the next step is to select an audit approach and audit objectives.

As noted in the [Practice Guide to Auditing Efficiency](#), it is unusual to find a pure “systems” or pure “results” audit of efficiency. Although the starting point is usually systems, audits of efficiency typically include some results questions and procedures, particularly in cases where efficiency systems were found to be operating improperly. Auditors can use a balanced approach where there is a system in place to achieve efficiency and where efficiency results are measureable. An audit approach that combines both systems and results audit objectives and procedures will reduce the risk of reaching an incorrect conclusion, provide better assurance, and enable auditors to tell a more complete story.

Table 2 lists key questions that will assist auditors in determining the most appropriate emphasis, either a systems emphasis or a results emphasis, for the specific inspection and enforcement program audit under consideration.

Table 2 – Key Questions to Ask when Determining the Audit Emphasis

Question	What a “Yes” Response Indicates	What a “No” Response Indicates
1. Has management implemented systems and practices to achieve efficiency?	An audit with a systems emphasis is feasible.	A systems emphasis is not advisable (that is, there is no system to audit; this could be the single reportable finding).
2. Has management implemented a recognized efficiency improvement framework, such as Lean or balanced scorecard? (See the section “Recognized Improvement Frameworks” of the Practice Guide .)	An audit with a systems emphasis on the implementation of this specific system is feasible.	The audit should not emphasize framework implementation.

Question	What a “Yes” Response Indicates	What a “No” Response Indicates
3. Does management measure efficiency?	An audit with a results emphasis is feasible.	Auditors will need to probe further (see question number 4 below) to determine if an audit with an emphasis on results is feasible.
4. Could auditors measure efficiency themselves?	An audit with a results emphasis is feasible.	A “No” response combined with a “No” response from question number 3 indicates that a results emphasis is not advisable because neither management nor auditors are prepared to measure efficiency results.
5. Are comparative benchmarks, recognized standards, or performance targets available?	An audit with a results emphasis including a comparison with standards, targets, or benchmarks is feasible. (This would be a “normative” audit objective, as described in the section “Drafting Audit Objectives” of the Practice Guide .)	A normative audit objective is not feasible. The result could still be examined as a “descriptive” objective. However, descriptive objectives are less likely to provide value-added findings than normative ones.

Note that there may be situations where it is not advisable or possible to perform an efficiency audit. In some cases, the subject matter is not auditable. If management has not implemented systems and practices to achieve efficiency, *and* management does not measure efficiency, *and* the auditor cannot measure efficiency, then it will not be possible to perform an audit.

Once a decision has been made on the appropriate emphasis for the audit of a specific inspection and enforcement function, auditors must determine what their audit objective(s) will be.

Sample Objectives with a Systems Emphasis

Examples of objectives applicable to audits with a systems emphasis are listed in **Table 3**.

Table 3 – Sample Objectives of an Audit with a Systems Emphasis

Sample Objective	Type of Objective	Focus of Objective
1. To determine whether management systems and controls that support achievement of efficiency in the regulatory inspection and enforcement function meet best practices.	Normative	Systems for achievement of efficiency
2. To determine whether management's systems and practices to measure and report efficiency achieved by the regulatory inspection and enforcement function meet best practices. ¹	Normative	Systems for measurement, reporting of efficiency
3. To determine whether management's design and implementation of a recognized improvement framework (such as Lean or total quality management) for the regulatory inspection and enforcement function meet best practices.	Normative	Implementation of a recognized framework for improving efficiency

Sample Objectives with a Results Emphasis

Examples of objectives applicable to audits with a results emphasis are listed in **Table 4**.

Table 4 – Sample Objectives of an Audit with a Results Emphasis

Sample Objective	Type of Objective	Focus of Objective
1. To determine whether the regulatory inspection and enforcement function's operational efficiency performance meets appropriate benchmarks, standards, or key performance targets.	Normative	Efficiency results
2. To assess change in efficiency of the regulatory inspection and enforcement function over time.	Descriptive	Efficiency results

¹ The distinction between systems-based and results-based objectives is not always clear. This objective could also be classified as a combined emphasis since it assesses management's *systems* to report efficiency *results*. For purposes of this document, the emphasis is classified as systems-based.

Selecting Audit Criteria

Each audit is unique due to the auditor's mandate, audit focus, audit objectives, risks identified while obtaining knowledge of the business, and the way the auditee approaches the achievement of efficiency in the regulatory inspection and enforcement function. The challenge for auditors is to find authoritative sources of criteria relating to efficiency of the inspection and enforcement function.

Auditors should consult subject matter experts during this phase of the audit as they can provide valuable assistance with criteria. Auditors are also encouraged to obtain the audited entity's agreement on the criteria.

The sections below suggest audit criteria for the inspection and enforcement function categorized according to whether the audit emphasizes systems or results, and by the seven management activities enabling efficiency as described in the [Practice Guide](#).

Sample Criteria with a Systems Emphasis

Criteria in **Table 5** are taken from the general criteria that can be used as part of a systems audit presented in the Practice Guide and are supplemented with criteria specific to the efficiency of the inspection and enforcement function. (Additions to the general criteria in the Practice Guide are shown in **Table 5** in italics.) Auditors may also choose to add criteria for the four support functions that contribute to the achievement of efficiency.

An appropriate set of criteria should be selected based on specific audit objectives. For example, if the audit objective is number 1 in **Table 3** (normative objective focusing on systems for achieving efficiency), then criteria related to all seven management activities in **Table 5** would likely be relevant. However, if the audit objective is number 2 in **Table 3** (normative objective focusing on systems for measuring and reporting efficiency), then criteria relating to a subset of management activities would likely be selected (for example, commitment and tone from the top, IT systems, performance monitoring and reporting, and continuous improvement and innovation). In this case, the remaining management activities (strategic planning, operational planning, and project and operations management) would be less relevant.

Similarly, for objective number 3 in **Table 3** (normative objective focusing on implementation of recognized efficiency improvement framework), the criteria would need to relate specifically to the selected framework, and good practices for its implementation and the systems criteria listed in **Table 5** would play only a minor role.

Table 5 - Examples of Criteria for Audits of Efficiency of Regulatory Inspection and Enforcement Function with a Systems Emphasis

Management Activity	Criteria for Audits with a Systems Emphasis
1. Commitment and tone from the top	<p>Efficiency as a priority. Senior management has emphasized that efficiency is a priority <i>for the inspection and enforcement function</i> and that achieving it is a shared responsibility of all managers and staff.</p> <p>Clear expectations. Senior management has clearly established and communicated expected results in terms of efficiency, complete with targets and indicators <i>for the inspection and enforcement activities</i>.</p> <p>Established baselines. The organization has established clear baselines for the cost, quality, and level of service of each of its main <i>inspection and enforcement</i> activities.</p> <p>Policies. Clear guidance is provided in the regulator's operational procedures on the steps that must be taken to assess the risks posed by non-compliance and to determine whether immediate regulatory action is needed to mitigate the most serious risks.</p> <p>Clear definition of need for action. Procedures are clearly defined, and staff trained in their application, to facilitate the taking of timely, targeted, and lawful regulatory action when non-compliance is found.</p>
2. Strategic planning	<p>Strategic planning. The organization has a strategic planning process that identifies organizational inefficiencies and prioritizes efficiency improvement initiatives <i>for the inspection and enforcement function</i>.</p> <p>Risk assessment. The organization has assessed the risks and potential consequences of maintaining <i>inspection and enforcement</i> operations identified as inefficient.</p> <p>Assessing opportunities. The organization continually identifies and evaluates opportunities to improve efficiency <i>of the inspection and enforcement function</i>.</p> <p>Compliance monitoring strategy. The compliance monitoring strategy (<i>inspection strategy</i>) is risk based.</p> <ul style="list-style-type: none"> ▪ The monitoring strategy is documented. ▪ The strategy identifies the types and frequency of monitoring activities, and who will conduct them, taking into consideration available resources and an acceptable level of residual risk.

Management Activity	Criteria for Audits with a Systems Emphasis
	<p>Review of the monitoring strategy. <i>Regulatory risks are systematically reviewed. When new or emerging risks are identified, the monitoring strategy is reviewed and adjusted, as necessary, so that regulatory outcomes can be achieved within defined residual risk parameters.</i></p>
3. Operational planning	<p>Operational planning. The organization's systems and practices to allocate financial, human, and material resources to its <i>inspection and enforcement</i> projects and operations are designed to increase operational efficiency.</p> <p>Service levels. The organization has adopted <i>inspection and enforcement</i> service level standards that are used by operational planners to identify, budget for, and allocate required inputs.</p> <p>Input costs. The organization identifies and analyzes the input costs for all its major <i>inspection and enforcement</i> services and programs.</p> <p>Unit costs. The organization calculates the unit cost of delivering its main <i>inspection and enforcement</i> services and tracks how the unit costs change over time.</p> <p>Cost variation. The organization has a clear understanding of how costs change in response to changing levels of <i>inspection and enforcement</i> activity.</p> <p>Comparable financial information. The organization continually compiles relevant financial information <i>on the inspection and enforcement function</i> and produces information that is comparable over time.</p> <p>Personnel allocation. The organization's systems and practices to allocate its personnel to its various <i>inspection and enforcement</i> services or business units are designed to increase efficiency.</p> <p>Allocation. <i>Human resources are allocated based on priority to the most important regulatory risk areas.</i></p> <p>Qualified personnel. <i>Inspection and enforcement</i> operations are designed and carried out by qualified personnel with clear roles and responsibilities.</p> <p>Accountability. Roles, responsibilities, authority, and accountability for efficiency matters <i>in inspection and enforcement</i> are clearly defined, attributed, and communicated.</p>

Management Activity	Criteria for Audits with a Systems Emphasis
4. Project and operations management	<p>Due regard to efficiency. The organization's project and operations management controls, operational systems, and work processes demonstrate due regard to efficiency.</p> <p>Operating systems and procedures. The organization's service delivery operations are designed and carried out using efficient systems, processes, and procedures.</p> <p>Utilization of production capacity. The organization optimizes the available production capacity, facilities, equipment, and employees to produce targeted volumes of goods and services.</p> <p>Scheduling. <i>Monitoring (inspection) activities are scheduled and implemented in accordance with the monitoring strategy.</i></p> <p>Monitoring of progress. <i>Progress on the inspection schedule's implementation is monitored and reported to senior management. Where slippage occurs, management endorses an action plan to remedy the slippage.</i></p> <p>Timely decisions. <i>Regulatory decisions on an entity's (or individual's) level of compliance are made in a timely manner so that corrective actions can be taken rapidly in cases of non-compliance.</i></p>
5. Information technology (IT) systems	<p>IT systems. The organization periodically assesses opportunities to use IT technologies to improve the efficiency of its activities and services.</p> <p>Documentation policies. <i>Guidance is provided to decision makers on the information that must be compiled, retained, and stored in support of a regulatory decision.</i></p> <p>Information retrieval. <i>Guidance is provided on how to prepare and assemble documentation so that, in the event of an enquiry about a decision, information retrieval costs are minimized.</i></p>
6. Performance monitoring and reporting	<p>Performance monitoring. The organization continually monitors the performance of its main activities and services using reliable indicators of efficiency.</p> <p>Quality and level of service monitoring. The organization continually monitors the quality and level of service achieved for each of the main <i>inspection</i> services it delivers.</p> <p>Benchmarking. The <i>organization</i> regularly benchmarks the main services it delivers in</p>

Management Activity	Criteria for Audits with a Systems Emphasis
	<p>order to assess their relative efficiency and identify areas for improvement.</p> <p>Reporting on efficiency initiatives. The organization periodically reports on progress against its efficiency objectives and initiatives.</p> <ul style="list-style-type: none"> ▪ The reports include relevant, timely, reliable, and complete information on efficiency achievements. ▪ The reports include information on the efficiency gains that have been achieved from individual projects and on how these gains have improved the services delivered by the organization. <p>Reporting efficiency savings. In reporting efficiency savings, the organization:</p> <ul style="list-style-type: none"> ▪ Reports consistently over time, using valid and reliable measures and indicators. ▪ Compares current values against baseline data. ▪ Explains how efficiency savings are affecting cost, quality, and level of service, to show the full impact of changes. ▪ Is transparent about the upfront investments and recurrent costs incurred in delivering efficiency.
7. Continuous improvement and innovation	<p>Improving existing methods of operations. The organization continually assesses the feasibility of streamlining its systems and procedures, optimizing the allocation of its resources, and eliminating duplication and waste.</p> <p>Innovation. The organization periodically identifies and assesses innovative ideas for improving the efficiency of its key activities and services.</p> <p>Service delivery alternatives. The organization periodically identifies and assesses the merits of alternative service delivery methods and models that may increase its efficiency.</p> <p>Efficiency through collaboration. The organization periodically assesses the merit and feasibility of increasing efficiency through new or improved collaborative arrangements (such as pooling resources, removing duplication, and sharing services <i>particularly with similar organizations within the government or public sector</i>).</p> <p>Continuous improvement process. The organization has implemented a continuous improvement process to review and improve its service delivery systems and practices.</p>

Source: Many of these criteria were adapted from the Office of the Auditor General of Canada's *Auditing of Efficiency* (1995), the Northern

Ireland Audit Office's *Improving Public Sector Efficiency: Good Practice Checklist for Public Bodies* (2010), the Australian National Audit Office's *Administering Regulation—Better Practice Guide* (2007), as well as from recent audits of efficiency.

Sample Criteria with a Results Emphasis

If the objective for an audit of the efficiency of an inspection and enforcement function is focused on results, auditors should refer to the [Practice Guide](#) section “Developing criteria for an audit with a results emphasis.” The criteria listed for performance monitoring and reporting in **Table 5** are also relevant. **Table 6** provides examples of criteria for an audit with a results emphasis

Table 6 - Examples of Criteria for Audits of Efficiency of Regulatory Inspection and Enforcement Function with a Results Emphasis

Criteria for Audits with a Results Emphasis
1. Reliability and other qualitative characteristics of information. The organization uses timely, relevant, reliable, and complete information to assess its efficiency.
2. Choice of benchmarks. The organization has selected relevant and reasonable benchmarks to assess its efficiency performance.
3. Performance meets targets or standards. The organization meets the efficiency targets set out in its annual operational plan or recognized sectoral efficiency standards.
4. Conclusions are supported by data. The organization draws appropriate conclusions on its efficiency based on performance data and benchmarks, baselines, or performance targets.
5. Reporting on efficiency initiatives. The organization periodically reports on progress against its efficiency objectives and initiatives. <ul style="list-style-type: none"> The reports include information on the efficiency gains that have been achieved from individual projects and on how these gains have improved the inspection and enforcement services delivered by the organization.
6. Reporting efficiency savings. In reporting efficiency savings, the inspection and enforcement organization: <ul style="list-style-type: none"> Reports consistently over time, using valid and reliable measures and indicators. Compares current values against baseline data. Explains how efficiency savings are affecting cost, quality, and level of service, to show the full impact of changes. Is transparent about the upfront investments and recurrent costs incurred in delivering increased efficiency.

Criteria for Audits with a Results Emphasis

7. Benchmarking process.²

- Planning for the benchmarking process includes identification of appropriate benchmarking protocols.
- Benchmarking data is collected and analyzed according to the protocols.
- Performance gaps are identified.
- Benchmarking findings are communicated to senior management (and the public if appropriate).
- Targets are set for addressing identified gaps.
- Progress in achieving targets is monitored.
- There is a continuous improvement process for the benchmarking process itself.

² Source: Business Process Improvement Resource, *BPIR Management Brief*, Volume 4, Issue 5, “Benchmarking,” page 3.

Conducting the Examination Phase

Selecting Audit Procedures

The challenge in this phase of the audit process is to ensure that audit procedures are robust enough to enable the auditor to determine whether the audit criteria are met and to conclude on the audit objectives. Also, the auditor should be selecting audit procedures to increase audit impact. Each audit is unique and there is no substitute for professional judgment when making key decisions on audit procedures.

Table 7 includes examples of audit procedures that could be used to audit the efficiency of a regulatory inspection and enforcement function. Note that some procedures apply only to audits with a systems or results emphasis, while others apply to both categories.

Table 7 - Sample Audit Procedures for Auditing Efficiency of Regulatory Inspection and Enforcement Function

Audit Emphasis	Audit Procedure	Related Management Activity (per the Practice Guide)
Systems or results	Performance measures and targets Review reported results to determine if there are indications of inefficiency. Compare with benchmarks or standards.	Performance monitoring and reporting
Systems or results	Inspector utilization <ul style="list-style-type: none"> Review inspector utilization statistics. Calculate cost savings that would result if all inspectors achieved the same utilization rate as the average of the top 25 percent. Review historic information on numbers of inspectors and number of inspections performed. How has efficiency of inspectors changed over time? Review information related to how inspectors' time is utilized. Calculate percentage of inspectors' availability that is spent on major tasks such as performing inspections, preparing file documentation and reports, administration, travel, and training. Are relative proportions in accordance with management expectations and benchmarks? 	Operational planning, project and operations management, performance monitoring and reporting

Audit Emphasis	Audit Procedure	Related Management Activity (per the Practice Guide)
Systems or results	<p>Time taken to perform an inspection</p> <p>Compare time taken to perform similar inspections against relevant standard (if it exists), compare the performance of inspectors, and compare performance with other jurisdictions. Calculate cost savings if all inspections were performed according to a time standard or another suitable benchmark.</p>	Commitment and tone from the top, project and operations management, performance monitoring and reporting
Systems or results	<p>Inspection report: timeliness and efficiency</p> <p>Compare time taken to complete an inspection report with standard (if it exists), compare the performance of inspectors, and compare overall performance with other jurisdictions. Determine whether appropriate tools are used to support the report writing process (for example, an electronic report writing system that enables the inspector to select from pre-established paragraphs). Calculate cost savings and/or time savings if all reports were prepared according to a time standard or another suitable benchmark.</p>	Commitment and tone from the top, project and operations management, performance monitoring and reporting
Systems	<p>Inspector training</p> <p>Interview a sample of inspectors to determine approach to training. Review policies and training records. Is there indication of insufficient training or that training does not promote efficiency?</p>	Operational planning
Systems	<p>File documentation</p> <p>Review sample of inspection files to determine whether policies and standards are followed. Is documentation well-organized and easily accessible? Are there feasible ways of making the documentation process more efficient? (In other words, are there ways of using less costly options to maintain the same quality of output?)</p>	Project and operations management, IT systems, continuous improvement and innovation

Audit Emphasis	Audit Procedure	Related Management Activity (per the Practice Guide)
Systems or results	<p>Penalties for non-compliance</p> <p>Review a sample of files to determine whether there are undue delays between completion of inspection and enforcement of penalties. Determine the ratio of penalties to inspections. Is there any indication that resources are not being targeted to high-risk areas? Is there any indication that the process of enforcing penalties is inefficient?</p>	<p>Commitment and tone from the top, operational planning, project and operations management, performance monitoring and reporting</p>
Systems or results	<p>Administrative overhead</p> <p>Benchmark administration costs with those of similar inspection functions. Administration costs could include administration staff, office space, and other components of overhead. Calculate the savings that would result if performance met benchmarks.</p>	<p>Operational planning, project and operations management, performance monitoring and reporting</p>
Systems or results	<p>Travel costs</p> <p>Compare travel costs among inspectors and investigate anomalies. Are there indications that inspectors are not located optimally?</p>	<p>Operational planning, project and operations management, performance monitoring and reporting</p>
Systems or results	<p>Potential innovations to increase efficiency</p> <p>Conduct research on options and discuss feasibility.</p>	<p>Performance monitoring and reporting, continuous improvement and innovation</p>

Considerations Relating to Reliance on Information Produced by the Auditee

During the examination phase, the question of whether it is appropriate for the auditor to rely on information produced by an entity's management systems will likely arise. This is especially true for audits that emphasize the results of the inspection and enforcement function, or an entity's performance monitoring and reporting systems.

In order to rely on information produced by an entity's management, auditing standards require auditors to conduct sufficient, appropriate audit procedures to reduce the risk that information produced by management is incomplete or inaccurate. These audit procedures may include reviews of internal controls and systems, analytical procedures, and/or reliance on the work of other auditors or specialists. The requirement to audit management information systems and reports may consume significant audit resources. Auditors need to thoroughly plan and conduct procedures to support a conclusion that the risk of relying on the information produced by an entity's management is low.

Reporting Audit Results

Reporting the results of an audit of the efficiency of inspection and enforcement involves the same considerations as reporting for any other performance audit. The audit report should be clearly written to avoid misunderstandings and to maximize impact. As indicated in the [Practice Guide](#), quantification and use of graphics and charts are encouraged because these techniques capture the reader's attention and enhance understanding.

In an efficiency audit of inspection and enforcement, it would be useful for the audit report to include estimates of cost savings or increases in the number of inspections that could be performed through efficiency improvements. As indicated in the Practice Guide, a subject matter expert may be useful in validating cost estimates before they are published.

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