GUIDANCE

# Practice Guide to Auditing Oversight

CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION

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The Canadian Audit & Accountability Foundation is a premier Canadian research and education foundation. Our mission is to strengthen public sector performance audit, oversight and accountability in Canada and abroad. We build capacity in legislative audit offices, oversight bodies, and departments and crown corporations by developing and delivering:

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**Practice Guide to Auditing Oversight**



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The Canadian Audit & Accountability Foundation's mission is to promote and strengthen public sector performance audit, oversight and accountability in Canada and abroad through research, education and knowledge sharing. To support this, we provide capacity development for public sector auditors and oversight committees, helping them to work with other public officials for accountable government.

The *Practice Guide to Auditing Oversight* is part of our performance audit capacity-building program and is the second in a planned series of such guides. It has been made possible with funding provided by the Foundation's members.

The consultative process undertaken for the Practice Guide project was extensive and included consultations with many leaders and professionals, on both an individual and collective basis, through the Canadian Council of Legislative Auditors (CCOLA) and other stakeholder networks.

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[1] Titles and organizations of individuals included in this publication were those in effect at the time of original publishing. The Canadian Audit & Accountability Foundation was then known as CCAF-FCVI Inc.

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Strong oversight is important to the success of every public sector organization in both delivering public services effectively and in promoting accountable government. This Practice Guide aims to assist public sector auditors in designing, carrying out and reporting performance audits of oversight practices. We hope you find it helpful and we welcome your feedback.

*Brian Bost*, Chair, CCAF-FCVI Board of Directors

*Paul Lohnes*, President and CEO, CCAF- FCVI

[2] Comments, suggestions and new ideas can be provided to John Reed at the Canadian Audit & Accountability Foundation (jreed@caaf-fcar.ca)

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# Purpose of the Practice Guide to Auditing Oversight

The purpose of this Practice Guide is to provide contemporary guidance for public sector auditors, both internal and external, on how to select, plan, carry out, and report on performance (or value-for-money) audits of oversight bodies and functions.

Some audit offices have published informative material about governance and oversight best practices and principles. However, little practical guidance on how to audit oversight is readily available. This Practice Guide aims to fill this gap: it includes guidance for each phase of the audit process, as well as examples of audit objectives and criteria for different types of oversight bodies and functions.

## Scope of the Practice Guide

This Practice Guide's focus is on oversight in the public sector. Specifically, the Practice Guide includes guidance on how to audit oversight bodies and functions responsible for:

- oversight of public agencies, boards and authorities (such as Crown agencies, school boards, and health authorities) and
- oversight of major initiatives in departments and ministries (critical programs, projects, services, or horizontal initiatives managed internally or outsourced to a private sector provider).

The Practice Guide does not discuss parliamentary oversight and does not include guidance on how to audit day-to-day management controls in departments and agencies. However, auditors may find that some if its contents (objectives, criteria, etc.) can be used or modified to audit different oversight mechanisms in ministries and departments.

## Using the Practice Guide

The Practice Guide is a flexible tool to be used within each audit office's existing processes and procedures, in accordance with existing auditing and assurance standards. It is therefore a complement to current audit methodology.

Readers of the Practice Guide do not have to read all its sections in order. Rather, the Guide has been designed to provide easy access to any section of interest and to allow readers to jump rapidly from one section to any other. Auditors are thus free to consult only the sections that best meet their needs.

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# Practice Guide to Auditing Oversight

## Part 1 Concepts and Context

## What Is Oversight and How Does it Relate to Governance?

Definitions of "oversight" and "governance" vary across public and private sector organizations, but they share many similar elements. This Practice Guide recognizes that oversight is a component (or subset) of good governance and adopts definitions of these terms suited to public sector organizations.

### What Is Oversight?

Oversight refers to the actions taken to review and monitor public sector organizations and their policies, plans, programs, and projects, to ensure that they:

- are achieving expected results;
- represent good value for money; and
- are in compliance with applicable policies, laws, regulations, and ethical standards.

Oversight is a critical governance function performed by boards of directors, committees, councils, and external bodies.

**Oversight** is composed of "**over**," meaning above, and "**sight**," meaning looking, but not touching. Indeed, those in charge of oversight functions are asked to look at a process, program, or project from above, but not to get involved in its day-to-day management.

In other words, oversight (or watchful care) is a safety net to ensure the following:

- Due diligence takes place before key decisions are made.
- Policies and strategies are being implemented as intended.
- Key risks are identified, monitored, and mitigated.
- Business processes and systems are working well.
- Expected results are being achieved.
- Value for money is obtained.
- Activities comply with policies, laws, regulations, and ethical standards.
- Developing areas of concern are being dealt with.
- Assets are being safeguarded.
- Continuous improvement is taking place.

In practice, oversight can be conducted through various functions, including:

- Planning
- Defining information needs
- Challenging
- Advising
- Approving
- Deciding
- Monitoring
- Reviewing
- Taking corrective action

Different oversight bodies will fulfill different oversight functions, in accordance with their specific mandates. Some oversight bodies will play a more active role in guiding management than others, while still staying away from day-to-day management of the organization's activities.

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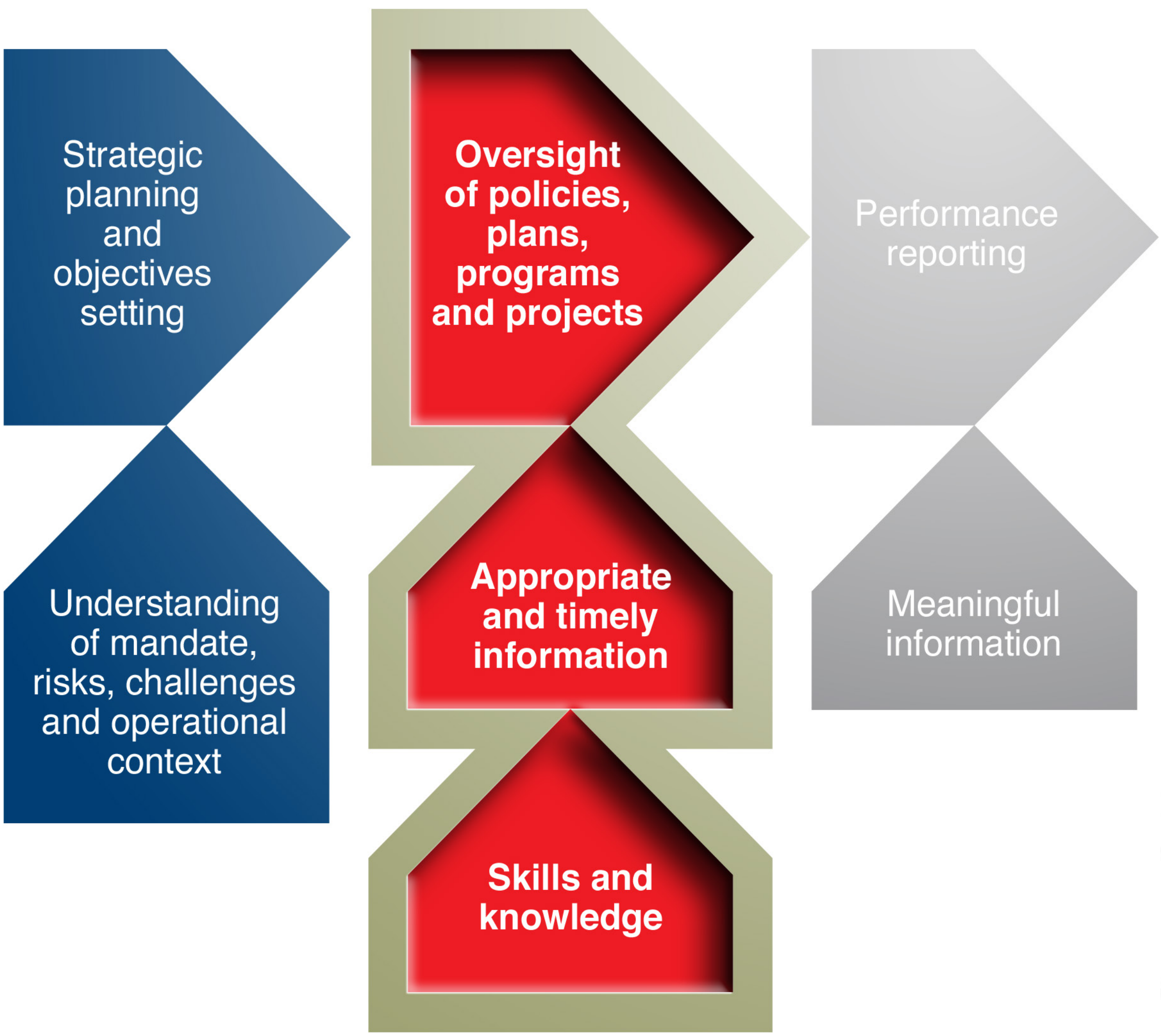
### What Is Governance?

While governance includes oversight, it is a broader concept. Governance refers to the structures, systems, and practices an organization has in place to:

- assign decision-making authorities, define how decisions are to be made, and establish the organization's strategic direction;
- oversee the delivery of its services; the implementation of its policies, plans, programs, and projects; and the monitoring and mitigation of its key risks; and
- report on its performance in achieving intended results and use performance information to drive ongoing improvements and corrective actions.

A simplified governance framework is presented in **Figure 1.**

## Figure 1 – A Simplified Governance Framework



Much has been written about what constitutes good governance, and "good practice" guides have been published in recent years by a number of organizations, including audit offices. (See, for example, the Australian National Audit Office's 2014 Better Practice Guide *Public Sector Governance: Strengthening Performance Through Good Governance*.)

While this Practice Guide does not explore all aspects of governance in the public sector, it is useful to highlight the basic principles that support good governance, and therefore oversight, too.

The basic principles of good governance are:

- **A**ccountability
- **L**eadership
- **I**ntegrity
- **S**tewardship
- **T**ransparency.

These five principles are briefly defined in **Figure 2**.

## Figure 2 – Principles of Good Governance

**Accountability** is the obligation of an individual, a group, or an organization to answer for a responsibility that has been conferred.

**Leadership** is setting the "tone at the top," which plays a crucial role in encouraging an organization's personnel to embrace good governance practices.

**Integrity** is acting in a way that is impartial, ethical, and in the public interest. Integrity is reflected in part through compliance with legislation, regulations, and policies, as well as through the instilling of high standards of professionalism at all levels of an organization.

**Stewardship** is the act of looking after resources on behalf of the public and is demonstrated by maintaining or improving an organization's capacity to serve the public interest over time.

**Transparency** is achieved when decisions and actions are open, meaning that stakeholders, including the public and employees, have access to full, accurate, and clear information on public matters.

Source: Modified from *Public Sector Governance: A Guide to the Principles of Good Practice*, Office of the Auditor General of British Columbia

It is also useful for auditors to have a clear understanding of the distinct roles played by both oversight bodies and management. As a general principle, the roles of an oversight body should be segregated from those of management. To illustrate this principle, **Table 1** presents the usual roles of boards of directors and management in public sector agencies, boards and authorities.

Oversight bodies are expected to play their respective roles without getting involved in the organization's day-to-day management. Members of oversight bodies should also be independent from management in order to avoid real or perceived conflicts of interest.

## Table 1 – The Separate Roles of Boards of Directors and Management

| Board's Roles | Management's Roles |
|---|---|
| ▪ Select, evaluate, and enable the CEO | ▪ Manage the organization in line with board direction<br>▪ Keep the board informed<br>▪ Seek the board's counsel |
| ▪ Approve strategic organizational goals and policies | ▪ Recommend goals and policies supported by relevant information |
| ▪ Make strategic decisions | ▪ Frame decisions in the context of the organization's mission and strategic vision, and provide the board with well-documented recommendations |
| ▪ Establish appropriate risk tolerance levels | ▪ Conduct risk assessments, mitigate and monitor risks, and provide the board with regular updates on key risks to the organization |
| ▪ Oversee management and organizational performance | ▪ Provide the board with transparent, complete, timely information in concise, contextual, or comparative formats<br>▪ Be responsive to requests for additional information |

Source: Adapted from B. S. Bader (2008), "Distinguishing Governance from Management," *Great Boards*, Vol. VIII, No. 3.

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## The Importance of Effective Oversight

Effective oversight is important to the success of every public sector organization. There are numerous oversight bodies within the public sector at the national, provincial, and municipal levels, each of which plays a role in ensuring that public services are delivered effectively, efficiently, and with due regard for economy.

The importance of strong oversight processes has been illustrated in recent times by a number of high-profile cases where weak oversight resulted in serious adverse consequences. The weak oversight of financial institutions in the United States, which contributed (among other factors) to the 2008 global economic crisis, is a well-known example. In Canada, a number of oversight weaknesses in the public sector have also been the subject of substantial media coverage (see **Figure 3**).

## Figure 3 – Canadian Examples of Oversight Weaknesses

**Air ambulance services in Ontario**

In March 2012, the Auditor General of Ontario released a special report on Ontario's air ambulance services delivered by Ornge, a not-for-profit provincial corporation created in 2005. The report highlighted a series of irregular financial transactions, performance issues, and a lack of oversight of the corporation's activities by the Ministry of Health and Long-Term Care. Over time, Ornge had created, with the approval of its board, a network of subsidiary companies that were not subject to the performance agreement signed between Ornge and the Ministry. The Ministry's ability to obtain the information it needed to fulfill its oversight responsibilities in relation to Ornge and its Board was therefore hindered. Furthermore, the Board did not request the Ministry's perspective on several significant strategic decisions and failed to take appropriate actions to investigate questionable transactions.

In 2014, a Standing Committee on Public Accounts summary report concluded that:

> *"the matters identified in the Auditor General's report could be attributed primarily to the absence of due diligence and oversight on the part of the Ministry of Health and Long-Term Care in applying a robust accountability framework, the lack of transparency and accountability on the part of Ornge's management and Board of Directors, compounded by systemic operational issues, as well as shortcomings in Ornge's first Performance Agreement."*

**Rail safety in Canada**

Rail safety issues were brought to the fore by the July 2013 tragedy in Lac-Mégantic, Quebec, in which 47 people died after a runaway train carrying crude oil exploded in the town's centre. The Transportation Safety Board of Canada investigation that followed the tragedy found many contributing causes, including insufficient monitoring and oversight of railway management safety systems by Transport Canada.

In November 2013, the Auditor General of Canada released an audit report on rail safety oversight that also pointed to oversight weaknesses at Transport Canada. Among other findings, the report noted that the Department had conducted only 26 percent of the audits of railway safety management systems its own policy required over the period covered by the audit. The audit concluded that the Department had not exercised enough oversight over safety management systems.

The examples in **Figure 3** are only some of the most prominent recent examples; there are many more and the media regularly bring new ones to the public's attention. These oversight weaknesses (and other factors) have led to reforms in both the public (for example, the *Federal Accountability Act* and Quebec's *Act respecting the governance of state-owned enterprises*) and private sectors (for example, Securities Act reforms in Ontario) aimed at increasing the accountability of directors and executive managers, as well as strengthening internal audit functions. In the federal government, for example, departmental audit committees with external members have been created in the aftermath of the federal sponsorship scandal.

The importance of effective oversight has also been heightened in many jurisdictions where governments have divested themselves of direct program delivery in a number of sectors by:

- delegating the delivery of programs and services to newly created agencies, boards or authorities; or
- outsourcing the delivery of programs, services or capital projects to private sector partners, through public-private partnerships or other types of contractual agreements.

Public sector spending happens increasingly outside traditional models of departmental/ministerial accountability and governance, a situation that may create new risks that must be managed and mitigated. To manage these emerging risks, public sector organizations have had to adapt in order to maintain or improve their oversight effectiveness. New governance and oversight arrangements have been developed to meet the needs of new situations, recognizing that where there is a need for effective governance, there is also a need for strong oversight.

At the same time, however, a troubled economic situation has created budgetary constraints that have significantly affected the management of many public services and programs. Concerns have been expressed among deputy ministers and other public officials about the resources required to support existing oversight mechanisms and fulfill reporting requirements.

To address the challenge of maintaining strong oversight processes in programs facing budgetary and staff reductions, public sector organizations need to ensure that they put in place a mix of oversight processes that strikes the right balance between risk, control, efficiency, and cost. Not doing so can unduly expose an organization to serious risks or, on the contrary, burden it with unnecessary processes and costly internal red tape that focus on process instead of results.

By conducting audits of oversight bodies and functions, internal and legislative auditors can play an important role in helping public sector organizations to achieve this balance between risk and controls, efficiency and costs. Through their reports, auditors can:

- identify the causes of breakdowns in oversight (audits of oversight are often conducted after a significant failure, crisis, or scandal);
- highlight weaknesses and inefficiencies in oversight regimes (thus helping auditees to prevent breakdowns in oversight);

- point to best practices;
- make recommendations for improvements; and
- help departments, agencies, boards and authorities to improve their oversight performance and avoid repeating past mistakes.

Ultimately, conducting audits of oversight bodies and functions is an important manner in which audit offices can fulfill their mandate to provide their clients (legislative assemblies, audit committees, or others) with independent information, advice, assurance, and recommendations regarding the stewardship of public funds.

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## Oversight Bodies and Functions

### The Hierarchy of Oversight Responsibilities

Oversight responsibilities in public sector organizations do not all rest with a single body or a single hierarchical level. Rather, they can be distributed at different levels.

This Practice Guide focuses on high-level oversight responsibilities in two specific situations (public agencies, boards or authorities and major initiatives in ministries and departments) and does not include in-depth consideration of day-to-day management and controls (that is, at the operational and tactical levels). A brief overview of other situations is presented below to illustrate the diversity of oversight roles in public sector entities.

For example, within a Crown corporation or agency, a board or an authority, the various oversight responsibilities are distributed among different managers, functions, and bodies:

- **Operational line managers**—These managers oversee business operations in which day-to-day transactions are entered and processed.
- **Tactical oversight functions**—These functions are centralized competence centres, like finance, risk management, compliance, and human resources. These tactical oversight functions monitor, facilitate, and coordinate the activities of business lines, to ensure they are operating effectively, within budget, and in compliance with corporate policies.
- **Executive management**—These managers are responsible for running and overseeing the business of the organization and developing corporate strategies for approval by the board of directors. They are also expected to provide representations to the board of directors to the effect that the organization's objectives are being achieved.
- **Board of directors—**The board is responsible for governing the organization and overseeing its activities and the performance of executive management in implementing corporate strategies.

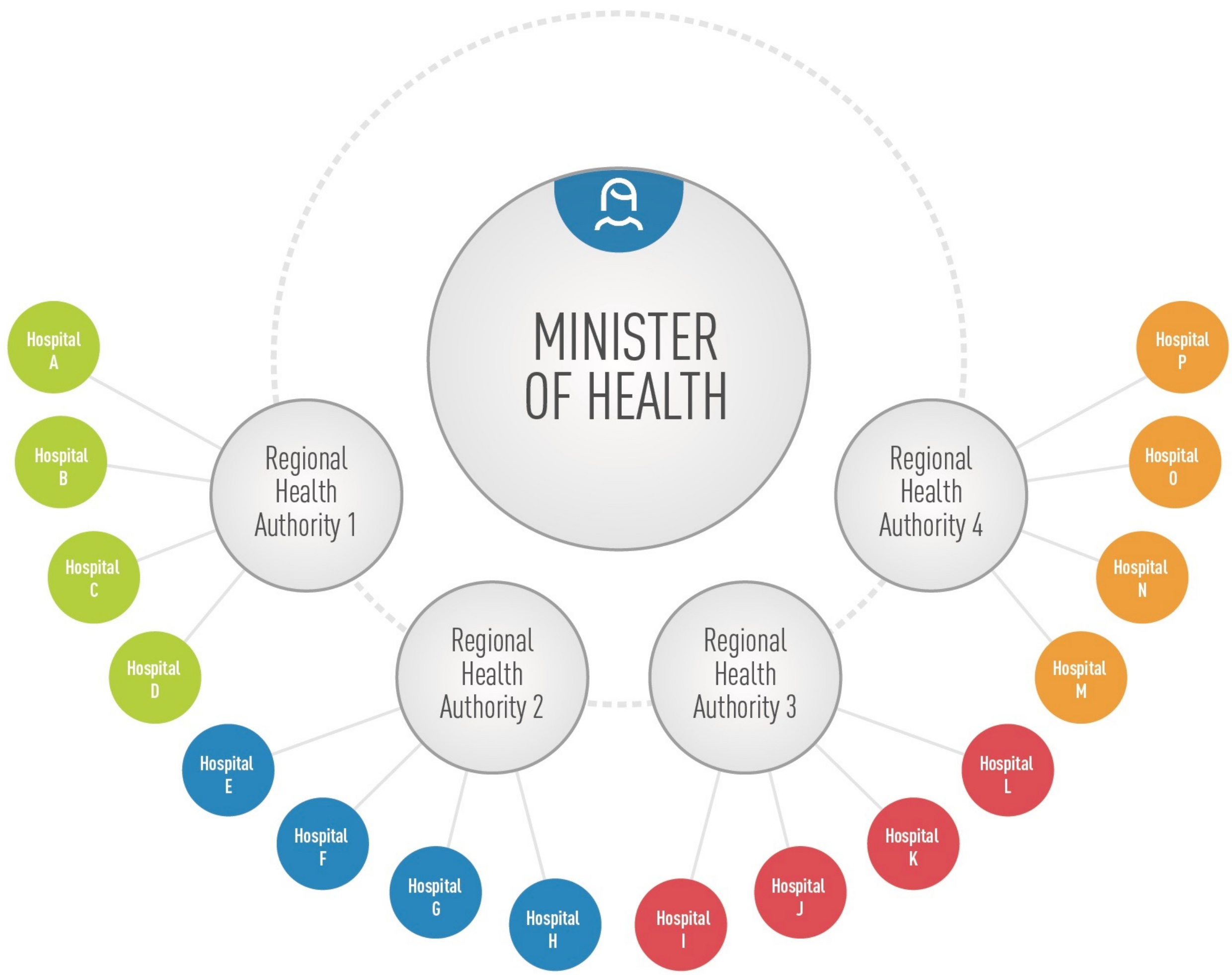
In addition, Crown corporations and other similar organizations are subject to oversight by their responsible Minister and may also be overseen by one of several independent regulatory agencies, depending on the economic sector and jurisdiction in which they operate.

For example, **Figure 4** illustrates a situation where a provincial Minister of Health has oversight responsibility for a number of regional health authorities, which themselves have oversight responsibilities for the activities of several hospitals in their respective region. In this case, the chair of the board of each of these regional health authorities is accountable to the Minister. In **Figure 5**, a regulatory agency, in this case an energy board, has oversight responsibilities for a number of energy producers, distributors and retailers. The energy board itself is overseen by a Minister.

Similarly, central agencies have their own oversight responsibilities, focusing on the implementation of key policies by a jurisdiction's departments and agencies. Figure 6 presents an example where a central agency has oversight responsibilities for the implementation of a policy on the management of major Crown projects.

Finally, internal oversight mechanisms can be established for major initiatives within departments or agencies. **Figure 7** illustrates a case where a special committee composed of assistant deputy ministers and a deputy minister has been set up to oversee a major initiative. This committee is independent from the day-to-day management of the initiative and is accountable to the department's Minister.

## Figure 4 – Example of Ministerial Oversight for Public Agencies, Boards, or Authorities



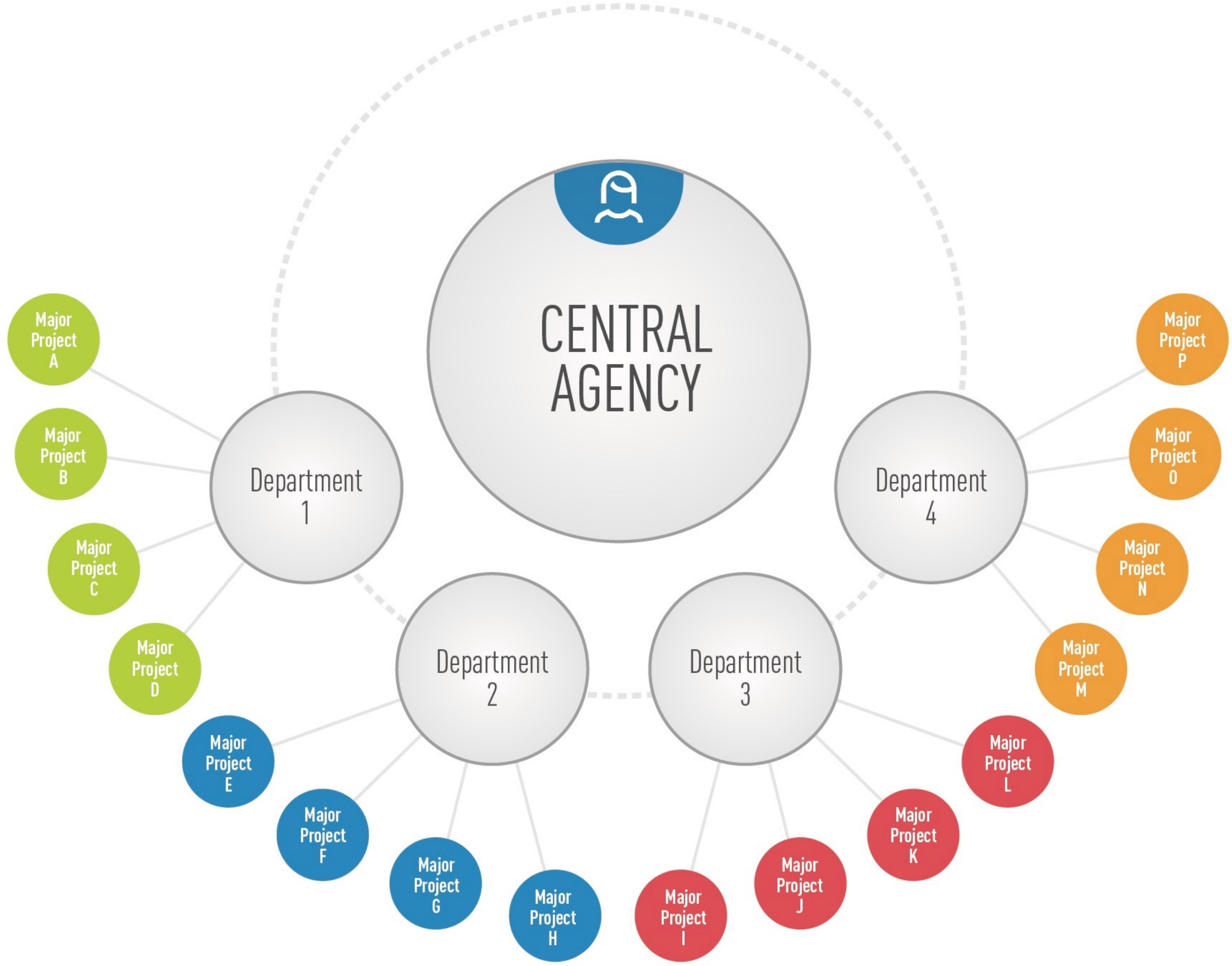

In major initiatives (critical public sector projects, programs, and services), oversight responsibilities covered in the Practice Guide are those exercised by the minister and by any special oversight body put in place to oversee the project, program, or service.

In public agencies, boards and authorities, oversight responsibilities covered in the Practice Guide are those exercised by the board of directors or equivalent oversight body, as well as those of the minister charged with overseeing the board of directors or oversight body.

These two distinct situations are covered in more detail in the Concepts and Context part of this Practice Guide and are also the main focus of the Audit Methodology part. Although the Practice Guide does not provide guidance specifically tailored for auditing the oversight of regulatory agencies that are not governed by a board of director or a similar oversight body, auditors interested in this topic can use and modify the examples (indicators, questions, objectives, criteria) provided in the Practice Guide to meet their own needs. Some of the guidance may also be useful as a starting point to audit common oversight mechanisms in ministries and departments.

## Figure 5 – Example of a Regulatory Body and its Oversight

## Figure 6 – A Central Agency and its Oversight of the Implementation of a Government-Wide Policy on Major Crown Projects




## Figure 7 – A Special Oversight Committee Established Within a Department to Oversee a Major Initiative

### Oversight Bodies

Oversight responsibilities exist in all public sector organizations and are assigned to managers and personnel working under a variety of governance structures. While some structures are common and well regulated, like the boards of directors of Crown corporations and agencies, others are more ad hoc and are subject only to internal rules.

To add to the complexity of this situation, the nomenclature used to describe oversight bodies is far from consistent. The term "board," for example, is not restricted to the boards of directors of public or private corporations. It can also refer to administrative tribunals, regulatory agencies, investigative and advisory bodies, operational organizations, and organizations mandated to manage public monies. It is therefore important for public sector auditors to go beyond names and to clearly define the characteristics of the oversight bodies they may choose to audit.

In general terms, an oversight body is a group of people with a common oversight purpose acting as an organized unit. In this Practice Guide, emphasis is put on oversight bodies that have:

- a discrete structure,
- a degree of independence, and
- a clear oversight mandate.

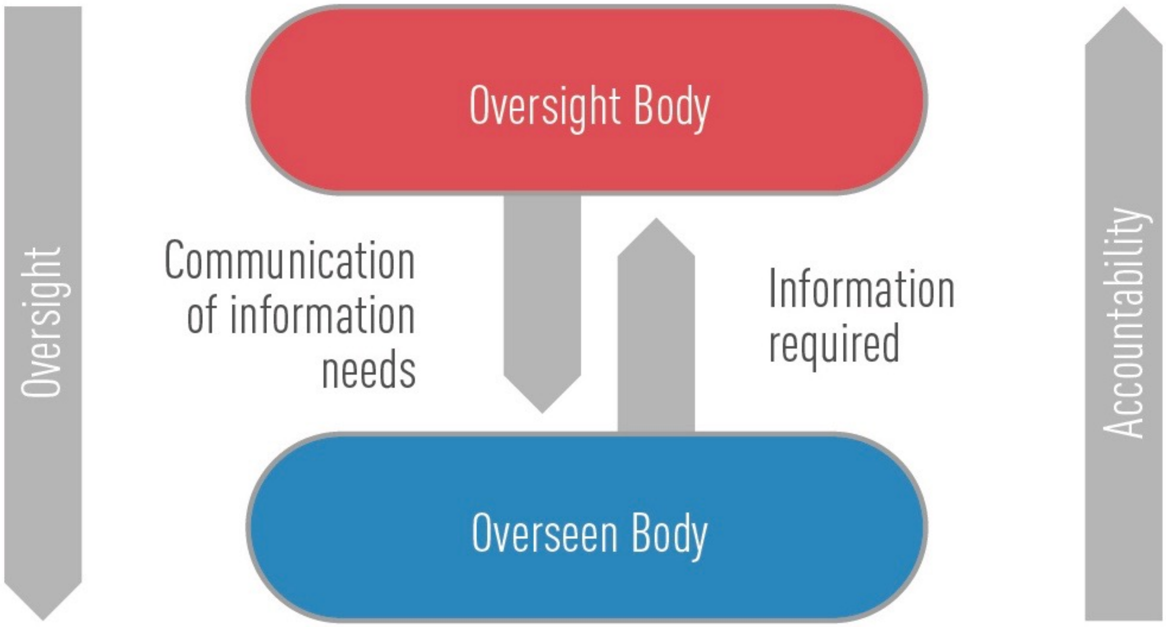
An oversight body may also be an organization's governance body (a board of directors, for example), or it may be a committee or other structure that reports directly to the governance body (an audit committee, for example).

The board of directors of a Crown corporation, the governing body of a local health or education authority, and a regulatory board for a specific economic sector would all meet the definition of an oversight body. However, the Practice Guide recognizes that it is possible to audit oversight even when some of these conditions (discrete structure, independence, and clear mandate) are not met. While some sections of the Practice Guide may be less applicable in such cases, other sections will be easily adaptable.

Each oversight body has its own unique characteristics. What unites oversight bodies is the nature of their relationship with their overseen organization and the oversight functions they play. As shown in **Figure 8**, the relationship between oversight bodies and overseen bodies is mediated through the exchange of information from one body to the other. The oversight body communicates its information needs to the overseen body and the latter provides the required information in return, thus fulfilling its accountability obligation.

This exchange of information can take place at more than one level. Depending on reporting relationships, an organization may report to a second organization (a regulatory agency or a health authority, for example), which itself reports to a third organization (a department or Parliament/legislature). In this case, the second organization is both an oversight body (overseeing the first organization) and an overseen body (overseen by the third organization).

## Figure 8 – Information Flow Between Oversight and Overseen Bodies




The expression "oversight of oversight" can be used to describe such situations where an oversight body oversees another oversight body. **Figures 4**, **5**, and **6** each illustrate examples of oversight of oversight. In **Figure 4**, for example, the Regional Health Authorities are both oversight bodies and overseen bodies. Note, however, that the oversight relationships illustrated in these diagrams are not necessarily hierarchical; some are horizontal. p

The role of "oversight of oversight" is an important one, especially where ministers are responsible for overseeing agencies, boards or authorities. This was recognized by Ontario's Standing Committee on Public Accounts in its 2014 report on the Ornge air ambulance service:

> *"The Committee notes that the events at Ornge confirm that it is not responsible simply to rely on the boards of transfer agencies to provide appropriate oversight. The Ministry must exercise its responsibility to ensure that public funds are being properly administered and that boards are held accountable for their actions."*

In recent years, many audits have reported significant weaknesses in the oversight of certain agencies, boards or authorities by their responsible minister. Examples include the 2011 New Brunswick audit of the oversight of wastewater commissions, the 2009 Ontario audit of the Electronic Health Records initiative, and the 2012 Ontario audit of the Ornge air ambulance service.

Audits can therefore look at oversight at different levels within a single audit:

- oversight by a board or another body of an organization's activities,
- oversight of this board or body by its responsible minister, and
- oversight of the organization's activities by an independent regulatory agency.

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### Oversight Functions

Oversight bodies are created to fulfill specific mandates. The list in **Table 2** defines the main functions exercised by oversight bodies to fulfill their oversight mandate. The functions are categorized according to the part of the *Plan, Do, Check, Act* management model they belong to. (While some of the functions may be exercised in more than one stage of the management cycle, the table has been simplified.)

Often, an oversight body needs to exercise many functions in order to provide adequate oversight of a single process. For example, boards of directors and other oversight bodies usually play many oversight functions in relation to corporate risk management. They can approve risk management policies, make decisions on risk tolerance levels, review risk profiles, monitor the implementation of risk assessment processes, and communicate information on corporate risks.

However, not all oversight bodies will exercise all functions. Each oversight body's functions are defined in its mandate. It is therefore important that auditors have a good understanding of the oversight mandate of the organization(s) they have decided to audit.

It is also important to note that even where there is no discrete, independent oversight body responsible for overseeing a major initiative, it can still be reasonably expected that the functions presented in **Table 2** would have to be exercised somehow. In other words, all major initiatives should have effective governance and oversight. In such situations, auditors could use the oversight functions as a starting point to develop their audit criteria.

## Table 2 – List of Oversight Functions

| **PLAN Functions** | |
|---|---|
| **1. Planning** | Determining how and when oversight actions will be taken by the oversight body |
| **2. Defining information needs** | Defining what information is needed by the oversight body to fulfill its responsibilities |
| **DO Functions** | |
| **3. Challenging** | Requesting an explanation or justification; calling into question |
| **4. Advising** | Offering suggestions about the best course of action to adopt |
| **5. Approving** | Officially agreeing to or accepting something as satisfactory (or in compliance) |
| **6. Deciding** | Coming to a resolution after having considered relevant factual information and potential options |

| CHECK Functions | |
|---|---|
| **7. Monitoring** | Maintaining regular, systematic surveillance over a process, system, program, project, or service, and comparing performance against expectations |
| **8. Reviewing** | Formally examining or assessing some aspects of an organization with the possibility or intention of instituting change if necessary. This may include reviewing:<br>▪ audit reports,<br>▪ evaluation reports, and<br>▪ investigation reports. |
| **ACT Functions** | |
| **9. Taking corrective actions** | Taking actions to correct an observed deficiency once its cause has been identified, either directly, by adopting a new rule or policy or amending an existing one, or indirectly, by ensuring that management effectively implements adequate measures. |

In addition to the functions in **Table 2**, oversight bodies can play other important roles, including facilitating continuous improvement, setting the tone at the top, communicating key decisions, and indicating the preferred behaviour and values (through a code of conduct) that are to be adopted and demonstrated by an organization's personnel. As with the functions listed in **Table 2**, these roles could be audited.

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### Oversight of Public Agencies, Boards and Authorities

Federal and provincial departments and ministries play significant roles in the delivery of services to Canadians. However, in the last several decades, there has been a trend in Canada to decentralize the management of many public services and to delegate the responsibilities for these services to agencies, boards and authorities (or "distributed governance organizations"). As a result, there are now hundreds of agencies, boards and authorities in provinces and at the federal level.

These organizations share several common characteristics:

- They are established by the government, but are not part of a ministry.
- They are accountable to the government.
- They were assigned or delegated authority and responsibility by the government, or otherwise have statutory authority and responsibility to perform a public function or service.

Common examples of agencies, boards and authorities include school boards, health authorities, and Crown corporations and agencies. Important public services like health care, education, energy production, and public transportation are delivered every day by agencies, boards and authorities.

These organizations are often (but not always) governed by a board of directors or governing council—an oversight body modelled after the boards of directors of publicly traded corporations. As in the private sector, the board or council is responsible for overseeing the organization's activities.

The boards of directors and governing councils of these agencies, boards and authorities are usually independent from the management of the organization they oversee and are granted the power to exercise all or most of the oversight functions listed in the Concepts and Context part of the Practice Guide. In particular, the board often has an audit committee, which plays an important role in overseeing financial and performance reporting, compliance, and related controls.

The Audit Methodology part of the Practice Guide includes guidance for auditing the oversight of agencies, boards and authorities governed by a board or council.

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### Oversight of Major Initiatives in Departments and Ministries

In addition to creating and delegating to various government agencies, boards and authorities the delivery of some public services, federal and provincial departments and ministries also retain responsibility for the delivery of other critical public services, social programs, and capital projects. This Practice Guide collectively refers to these "major initiatives" (in contrast to more routine programs) and where they exist, stresses the need for effective governance to ensure the delivery of value for money. As stated previously, where there is a need for effective governance, there is also a need for strong oversight.

Major initiatives managed by departments and ministries that may warrant special or specific oversight mechanisms can include:

- large, complex procurement or capital projects (such as transit projects, bridges, and hospitals);
- projects and services outsourced to private sector providers, through traditional contracts or through public-private partnerships (such as ambulance services, and construction and maintenance of schools, hospitals, and highways); and
- government-wide initiatives that involve large sums of public money (such as economic stimulus programs and public safety initiatives).

There is no single definition of what constitutes a major initiative. Each audit office has to define what this term means in its own context and exercise professional judgment in determining if special or specific oversight is warranted (whether in place or not). In general, major initiatives will involve a department managing (or outsourcing the implementation of) a program, project, or service of direct benefit to the public, as opposed to projects or services of benefit to the department itself (exceptions may be warranted, however, in the case of high value and/or high risk projects).

In instances where strong governance and oversight are especially important, it is common for governments to create special governance structures that share several characteristics:

- a discrete body composed of a number of senior officials (for example, assistant deputy ministers, deputy ministers, and ministers);
- a clear oversight mandate; and
- a degree of independence (no involvement in the day-to-day management of the overseen program, project, or service).

For example, in the case of the National Shipbuilding Procurement Strategy, which included plans to spend more than $50 billion over 30 years to recapitalize fleets of Navy and Coast Guard ships, a committee of assistant deputy ministers was charged with overseeing the Strategy's development and implementation. (See the OAG Canada audit on this topic.)

Similarly, in the context of Canada's Economic Action Plan, Infrastructure Canada instituted a project review panel composed of the Associate Deputy Minister and assistant deputy ministers to review all Infrastructure Stimulus Fund projects recommended by program staff before forwarding them to the Minister for final approval. (See the OAG Canada audit on this topic.)

In the context of preparing for the 2015 Pan American Games and the Parapan American Games to be hosted in Toronto, the Province of Ontario has established a Security Budget Oversight Committee to oversee the budgets and costs of the large security operations that will be necessary to ensure safety during the games. This committee includes senior officials from two provincial ministries and from the Pan/Parapan American Games Secretariat. (See the special report of the Auditor General of Ontario on this topic).

Given their significance, programs, projects, and services overseen by special oversight committees (or similar structures) will often be of interest to auditors. The Audit Methodology part of this Practice Guide includes guidance for auditing the oversight of major initiatives in departments and ministries.

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# Practice Guide to Auditing Oversight

## Part 2 Audit Methodology

## Introduction to Auditing Oversight

Audits of oversight follow the same standards and general process as all performance audits. Auditors are required to follow the standards and audit processes applicable to their body of practice and office mandate.

An overview of the generic audit process is in **Figure 9**.

## Figure 9 – Overview of the Performance Audit Process


The diversity of governance structures in any jurisdiction's public sector and the diversity of oversight functions in any organization mean that auditors will rarely be able to apply the same audit plan to different organizations. However, auditors can apply a common methodology to plan all their audits of oversight.

When undertaking an audit of oversight, auditors will need to:

- select a significant oversight topic (for example, oversight of food safety, oversight of major capital projects) to audit and
- select one or more organizations to audit and develop a very good understanding ("knowledge of business") of each audited organization's governance structure, oversight responsibilities, strategic direction, and performance expectations.

Once these decisions are made, auditors will need to determine the extent of focus that the audit will place on oversight:

- Should the audit deal exclusively with oversight (that is, should it be a "stand-alone" audit of oversight) or should oversight be part of an otherwise broader performance audit where oversight is only one of the topics covered by the audit?

Auditors will also need to decide whether their audit approach will be to look at:

- the structures and systems of oversight bodies and functions or
- the results and effectiveness of these bodies and functions.

Alternatively, auditors could decide to combine both of these approaches in the audit in order to provide a more complete assessment of oversight responsibilities.

In addition to identifying the topic, focus, and approach of the audit, auditors will need to prepare a detailed audit plan that includes audit objectives, audit criteria, and audit procedures.

This Practice Guide provides information and guidance that will help auditors to complete the successive steps involved in planning, conducting, and reporting the results of an audit of oversight. This guidance will be especially useful to auditors who wish to audit:

- oversight of agencies, boards and authorities; and
- oversight of major initiatives in departments and ministries.

The Practice Guide also includes a glossary and a list of references (with hyperlinks to quickly access audit reports and other relevant documents on oversight).

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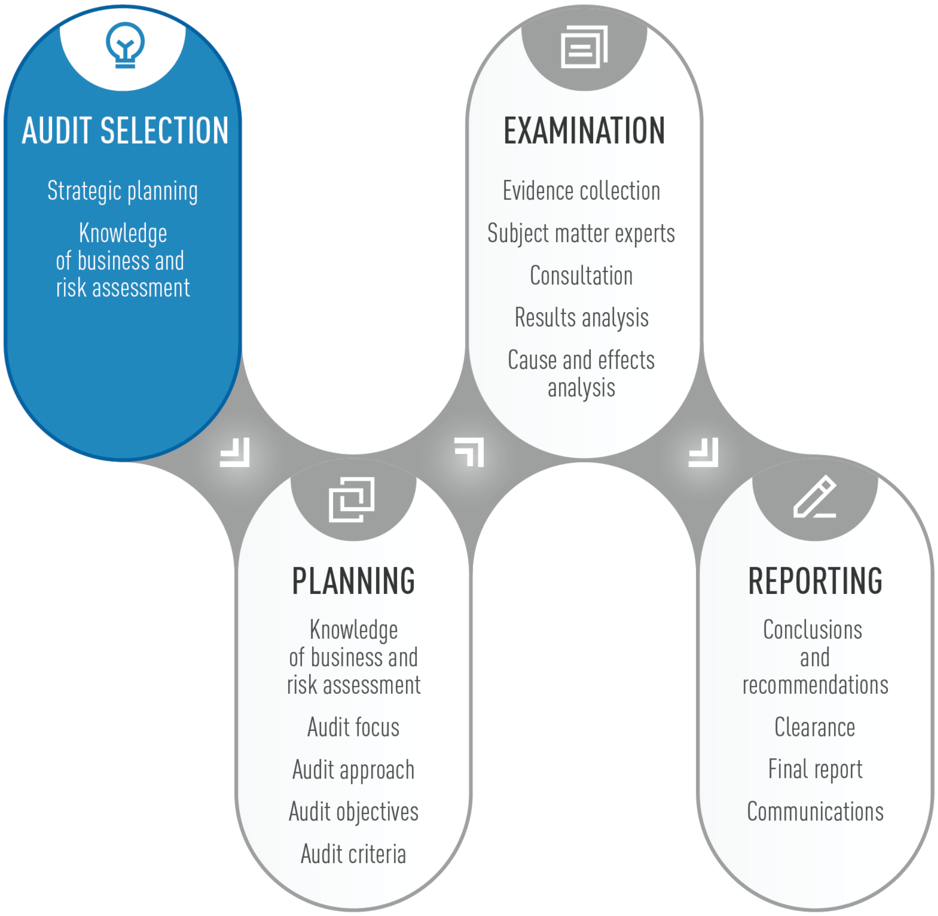
## Selecting an Audit Topic




The first step in the performance audit process is to select a topic. The specific practices and criteria used to select audit topics vary from one office to another.

In some cases, audits are mandated by legislation, like the special examinations of federal Crown corporations under the *Financial Administration Act.* In other cases, a special request may be made by a legislature or a minister for an auditor general to conduct a particular audit (as was the case for the 2011 New Brunswick audit of the oversight of wastewater commissions). These requests are often made after a significant negative event has occurred, with a view to identify the cause and prevent a reoccurrence.

But, in most cases, internal and legislative audit offices in Canada have the flexibility to choose (or at least propose) their own audit topics. Often, selection of audit topic is done as part of the office's strategic planning process. The selection process usually involves senior audit executives who make decisions based on information generated by a risk analysis of some sort (or other method) as well as consideration of any constraints imposed by the audit's timing, available resources and skills, and the auditability of the topic. In some offices, a senior auditor may have the responsibility to select an audit topic (or at least propose one for approval).

This Practice Guide suggests that consideration of the importance of oversight may also influence audit topic selection. Further, activities related to acquiring knowledge of business and assessing risk are typically applied to both audit topic selection (see below) as well as in detailed planning of a performance audit (described in subsequent sections of the Practice Guide), albeit at different levels of detail.

Given that there are oversight responsibilities in every public sector organization, it is unlikely that offices /senior auditors would first decide to audit oversight and then undertake an analysis to determine in which department or agency this would be most relevant. Rather, it is far more likely that they would already have in mind a specific organization, program, or horizontal issue (one for which responsibilities are spread across several departments). In that instance, the office's or senior auditors' main task would be to determine if the audit should cover oversight responsibilities in the chosen organization(s), program, project, or public service.

In order to make this determination, audit teams will need to:

- develop a preliminary knowledge of business,
- assess the importance of proper oversight to the attainment of stated organizational objectives, and
- assess whether there are indications that oversight has been ineffective and has put the achievement of these objectives at risk.

There are many indicators that oversight may be weak, including:

- significant cost overruns, delays, high numbers of complaints, escalating risks, and poor performance against targets;
- irregular board or committee meetings, poor (i.e. absent, incomplete, ambiguous or inaccurate)documentation to support key decisions, and lack of performance information; and
- failure to take corrective actions or to make significant progress in relation to previous audit observations and recommendations.

Auditors can look for these and other signs, document them, and then use this information as part of their analysis to determine whether oversight is an important risk factor for the success of the project, program, or organization they want to audit.

Among the questions to consider in making this determination are:

- Would weak oversight prevent the organization from achieving its objectives or adequately carrying out its mandate?
- Would weak oversight result in significant adverse consequences for the organization, its clients, or the public?

In situations where oversight is an important risk factor, auditors should consider including one of more lines of inquiry on oversight in their audit plan. Lines of enquiry can focus on either:

- the design of oversight structures and systems (oversight body structure, mandate, roles and responsibilities, independence, skills and experience requirements, and so on) or
- the results and effectiveness of these structures and systems (performance in delivering oversight mandate; compliance with laws, regulations, and bylaws; performance monitoring; reporting; and so on).

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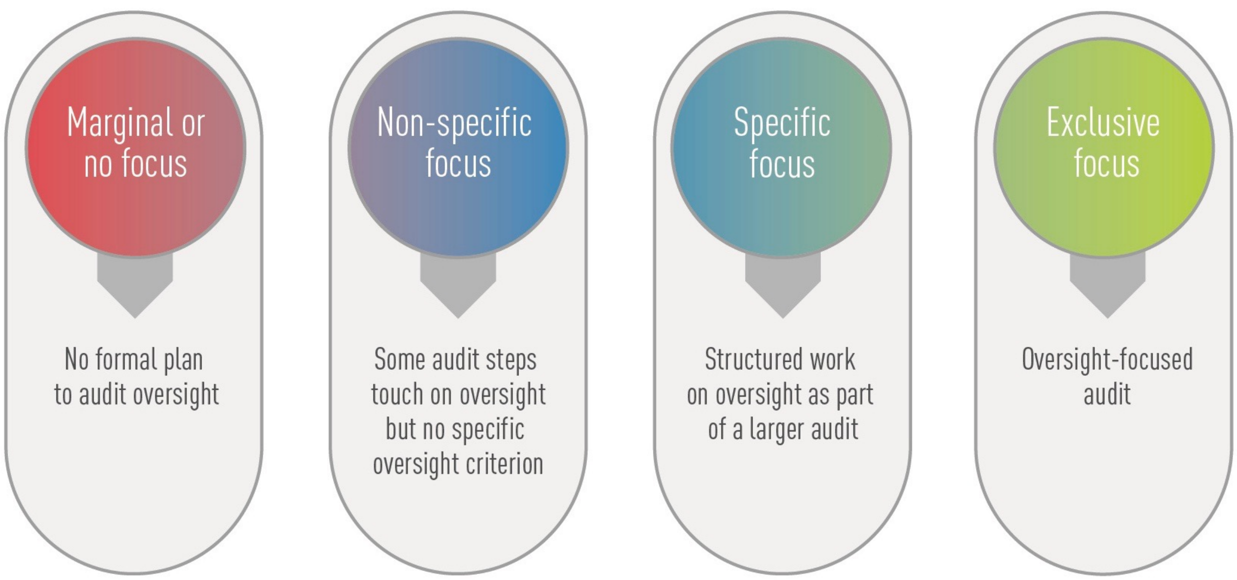
## Determining the Degree of Focus on Oversight

When planning a performance (value-for-money) audit that will integrate oversight questions, auditors will need to decide on the focus of the audit. Focus relates to the level or degree of attention given to oversight in a performance audit.

There are many ways in which a performance audit can integrate oversight considerations. Some audits will focus exclusively on oversight while others will only cover oversight as a secondary topic. This varying level of effort and focus directed at oversight can be thought of as a spectrum (see **Figure 10**) along which are different categories, from "marginal or no focus" to "exclusive focus":

- **Marginal or no focus**—There is no formal plan to audit oversight, but the issue comes up during an audit (for example, weak oversight is identified as the root cause of a performance problem).
- **Non-specific focus**—Some audit steps touch on oversight even though there is no specific oversight criterion.
- **Specific focus**—Structured audit work on oversight is part of a larger audit. Oversight can be a line of enquiry among others or elements of oversight are looked at under lines of enquiry that primarily focus on other matters.
- **Exclusive focus**—This is an audit focused exclusively on oversight (a stand-alone audit of oversight).

### Figure 10 – The Spectrum of Audits of Oversight




Since oversight is a subset of governance, oversight is often audited in the context of governance audits. For example, the Office of the Auditor General of British Columbia has conducted audits of Crown agency board governance ([2012]) and university board governance ([2014]) that included examining the oversight responsibilities of selected boards of directors, among other governance aspects. These audits focused exclusively on governance and oversight.

In other instances, oversight is included in an audit as part of a line of enquiry on governance, but governance is only one of several topics being examined. The special examinations of federal Crown corporations conducted by the Office of the Auditor General of Canada follow this model. In these audit engagements, auditors are asked to provide assurance that a corporation's assets are safeguarded, its resources are managed economically and efficiently, and its operations are carried out effectively. In addition to governance, special examinations include other lines of inquiry on important corporate areas like human resources, financial management, performance measurement, and environmental management. The focus on oversight in special examinations is therefore limited by the requirement to provide assurance on a broad range of significant corporate activities.

Finally, sometimes oversight issues surface in audits where this topic (or governance) was not initially included in the audit scope. In such cases, audit teams will need to modify their scope, seek the necessary internal approvals, and inform the audited organization's management as appropriate.

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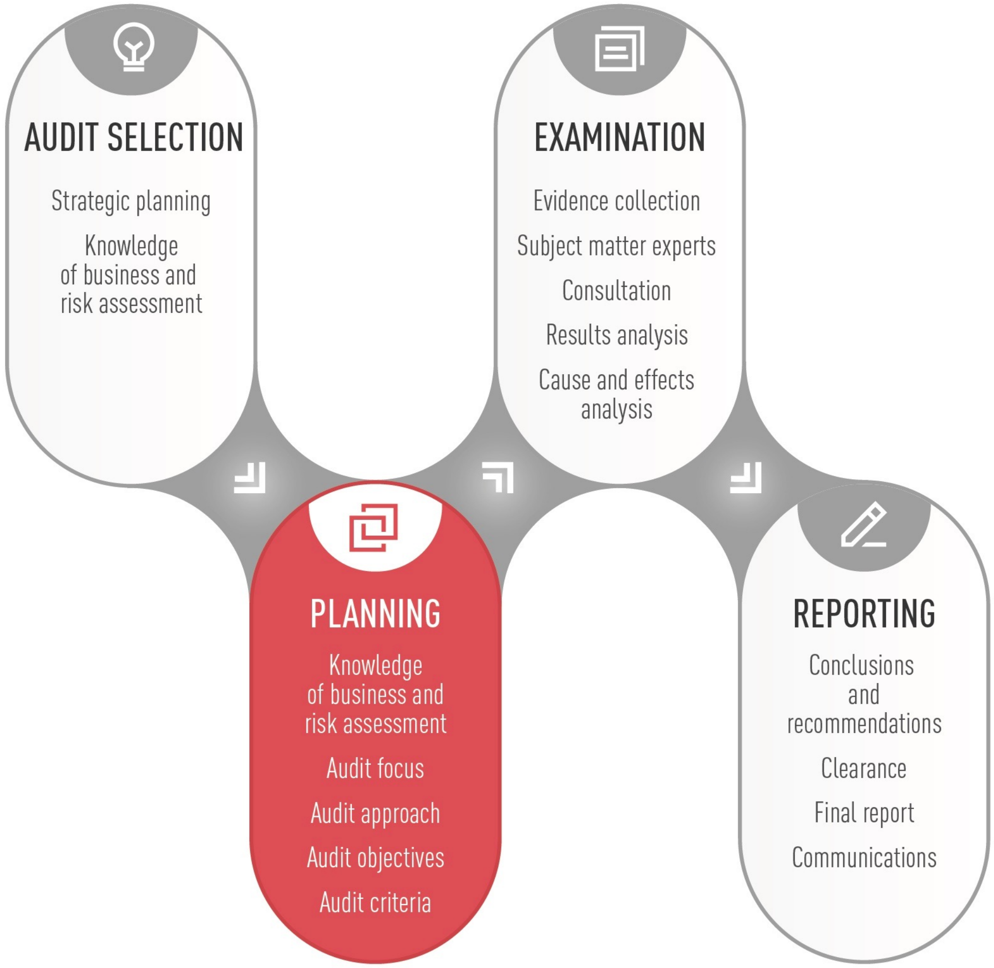
## Planning an Audit of Oversight of a Public Agency, Board or Authority




This section of the Practice Guide is organized according to the key actions and decisions that need to be made during the planning phase of the audit process:

- Acquiring knowledge of business and assessing risk
- Determining the audit approach
- Drafting audit objectives
- Selecting audit criteria

Although these topics are presented in a specific order, planning a performance (value-for-money) audit is rarely a linear process. In fact, the planning process is often iterative, with decisions in one step requiring the audit team to review decisions made in previous steps to ensure the audit plan's overall coherence.

## Acquiring Knowledge of Business and Assessing Risk

Auditing procedures typically require auditors to acquire knowledge of the organization and subject matter being audited and to prepare a risk-based audit plan. In practice, this means that the audit team needs to:

- collect knowledge of business information about the governance structure of selected agencies, boards or authorities, especially their oversight bodies and functions, and
- identify significant areas that would benefit from an examination of oversight.

As in all performance (value-for-money) audits, the auditor's understanding of significance and risks will be used to identify particular programs or areas to include in the audit and to develop audit objectives. This section of the Practice Guide is designed to help auditors acquire a sound understanding of significance and risks by providing them with examples of:

- general audit questions that can be used to better understand oversight roles and responsibilities in public sector organizations and
- indicators that oversight may be at risk in a program, project, or organization.

While these tools will be helpful to auditors, they should keep in mind that the Practice Guide does not foresee all possible situations. Applying professional judgment and knowing the particularities of each selected organization are key success factors for the planning phase of any audit of oversight.

### Acquiring knowledge of business

The early stage of planning a performance audit requires that auditors develop a sound understanding of the nature, objectives, and activities of the organization or organizations that will be audited. This involves obtaining basic information on an organization's mandate, organizational structure, accountability relationships, programs, resources, key risks, past performance, and so on. It also means gathering more detailed information on specific systems and practices in areas that auditors are particularly interested in, including oversight.

Since oversight is a subset of governance, it is usually beneficial for auditors who want to focus on oversight to first develop a good understanding of the full governance structure of an agency, a board or an authority. This includes obtaining information on the structure and operation of the board of directors (or governing council) and all its committees. **Table 3** provides a list of questions that auditors can seek answers to early in the audit. The required information can often be found easily in legislation, bylaws, annual reports, or organization websites. Auditors can also ask management for any missing information. It should not be necessary at this point to interview board members to obtain the required information.

## Table 3 – Questions About the Governance of an Agency, a Board or an Authority

| Questions |
| --- |
| ▪ How many directors sit on the board?<br>▪ For how long can directors serve on the board?<br>▪ What is the process to appoint new directors?<br>▪ Do board members receive training or orientation on their roles and responsibilities?<br>▪ Is there a board charter?<br>▪ Are board and corporate policies (such as a code of conduct) documented?<br>▪ Is there a board profile or a skills matrix?<br>▪ How many committees does the board have? What are the respective roles of the board committees? How often do the various committees meet?<br>▪ Are board minutes publicly available? Are records of committee meetings kept on file?<br>▪ Are board self-assessments conducted regularly?<br>▪ Who does the board report to and what information does it provide?<br>▪ What performance expectations has the government specified for the organization? What key outcomes are expected? What would be the impact of not meeting expectations?<br>▪ In addition to the President or CEO, how many senior executive positions are there? What are their respective roles and responsibilities? |

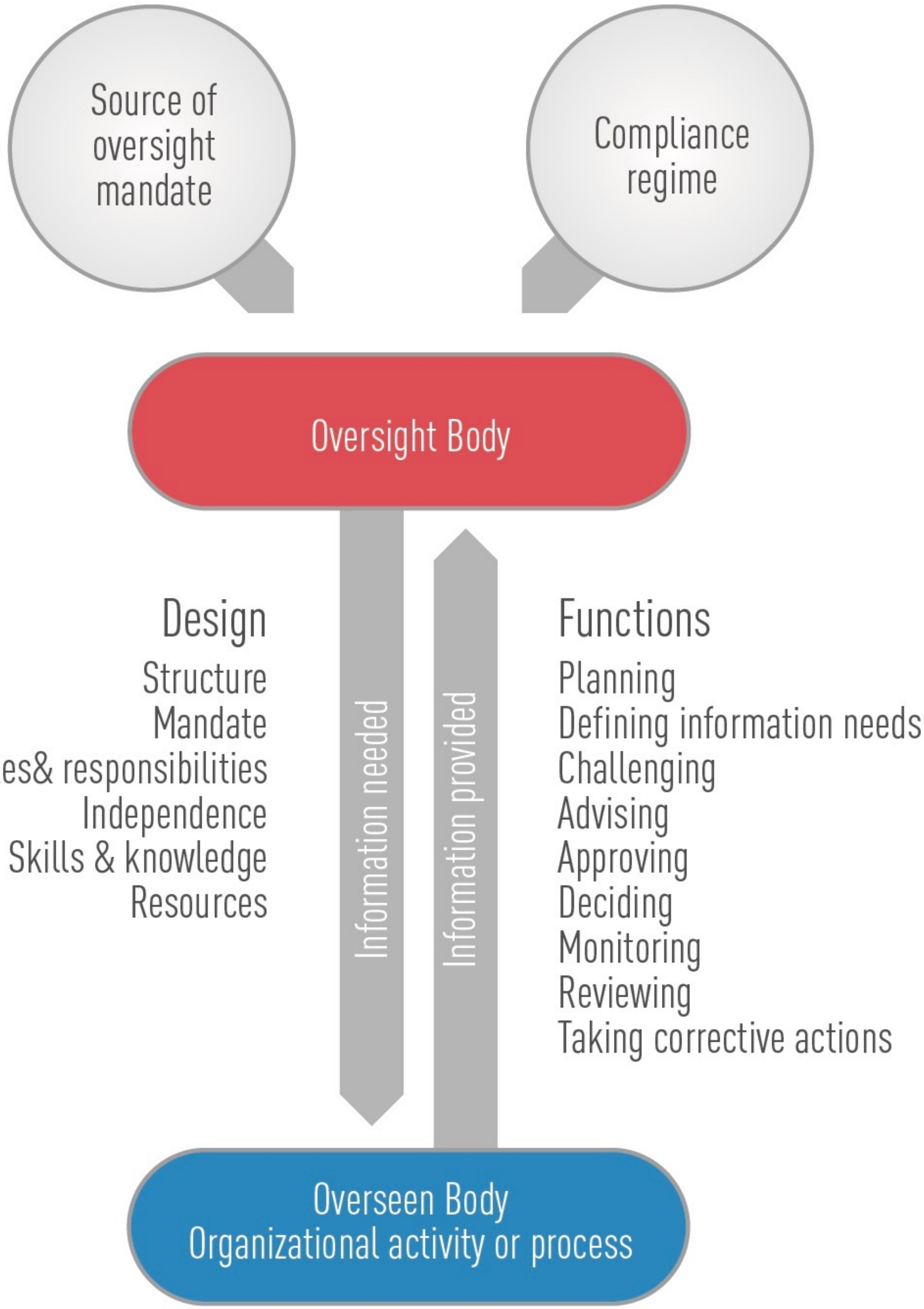
Once auditors have a good understanding of the basic governance structure of the agency, board or authority they have selected, they can move to the next step, which is gaining a better understanding of the organization's oversight roles and responsibilities and how they are being discharged in practice. In other words, how are things supposed to be and how are they in reality? **Figure 11** presents an overall oversight framework that auditors can refer to when they develop their knowledge of business questions.

At this stage of the audit process, auditors can ask questions to get an overview of an organization's oversight regime without having to conduct extensive research and file reviews. Auditors typically ask more detailed questions that would require in-depth review and testing of evidence in the audit's examination phase.

Knowledge of business questions specific to oversight responsibilities can be divided in two broad categories: structures and systems (**Table 4**) and the results and effectiveness of the oversight regime (**Table 5**). While this distinction is practical and often easily made, it does not work in all situations; there are usually links between systems and results and, in some cases, it may be hard to say where systems stops and where results begin.

Conducting this preliminary audit work will help auditors to draw an overall picture of the oversight in the agency, board or authority they have selected. It will also help them determine what the most important oversight functions and activities are and why. Equipped with this information, auditors will be able to start considering where the audit could fall on the spectrum of audits of oversight.

## Figure 11 – Overall Oversight Framework



## Table 4 – Knowledge of Business: Questions on Oversight Structure and Systems

| Questions |
|---|
| ▪ What are the key oversight bodies? How many members do they include? Who are they accountable to? Has the government formally provided the oversight body with clear performance expectations and information on the key outcomes to be achieved?<br>▪ Do oversight bodies have clear mandates that set out their authority to conduct specific oversight functions? What are these oversight functions? How are they organized?<br>▪ What are the specific oversight roles and responsibilities of the members of oversight bodies?<br>▪ Are there independence requirements for oversight bodies and their members? Are the oversight functions organizationally independent of management? Are there processes in place to manage conflicts of interest and other threats to independence?<br>▪ Is there a board profile or similar document that makes explicit the skills, knowledge, and experience that board members should possess in order to exercise their oversight roles and responsibilities? How does the board ensure that its members collectively meet these skills, knowledge, and experience requirements? Does the board make use of independent subject matter experts to supplement any identified skills/experience gaps?<br>▪ What information do oversight bodies need to make informed decisions? Have those needs been documented and communicated to management? What systems has management put in place to help produce the required information?<br>▪ Has the oversight body established a system to monitor the performance of important oversight activities or functions?<br>▪ What resources are allocated to oversight bodies each year? Are there significant resource gaps? |

## Table 5 – Knowledge of Business: Questions on Results and Effectiveness

| Questions |
|---|
| ▪ Are the oversight bodies receiving the information they request from management? If yes, is this information of good quality?<br>▪ How do oversight bodies obtain assurance that their organization is in compliance with laws, regulations, bylaws, and the organization’s code of ethics? Is compliance monitored regularly?<br>▪ Has the oversight body (or governance body) adopted a risk management policy? Has the oversight body ensured that adequate risk management practices exist within the organization? Is the oversight body aware of the key risks facing the organization? Are risk profiles and risk mitigation strategies prepared by management regularly reviewed by the oversight body?<br>▪ Is there a process in place for the oversight body to monitor the implementation of recommendations of internal audits and evaluations? Are actions taken in response to the recommendations of internal audits and evaluations? |

- Are the results of important oversight activities or functions measured? Is performance information available? Is performance data gathered, used, and reported?
- What performance information is reported by oversight bodies and functions to fulfill their accountability responsibilities? Is the information reported complete and transparent? That is, do the reports include sufficient information for readers to be able to understand key results and evaluate organizational performance?
- Does the board or council periodically evaluate its performance in discharging its oversight roles and responsibilities?
- How do the different oversight functions within the organization interact and collaborate?

**Assessing risk**

Assessing potential risk is an important task when selecting the most significant oversight issues to audit. Auditors can review the information they have gathered early in the audit (such as governance structure and minutes of board or committee meetings) and determine whether they can identify indicators that oversight may be at risk in specific areas of an agency, board or authority.

A list of common indicators that oversight may be at risk is presented in **Table 6**. While such indicators can be useful to target further examination work, their presence should not be indiscriminately accepted as evidence that an oversight deficiency exists. Auditors must always gather sufficient appropriate evidence to support a cause-and-effect relationship before concluding that the presence of an indicator means that an actual deficiency exists.

## Table 6 – Indicators that Oversight May Be at Risk

| Indicators |
| --- |
| ▪ A wholesale change of board members took place or turnover is very high, there is a lack of turnover of board members or excessively long terms, or replacements of board members are not staggered in time.<br>▪ The board's relationship with the CEO is overly strained, the CEO is not being transparent with the board, the board's relationship with the CEO is too cozy, or the board does not (or rarely) question and challenge the CEO.<br>▪ The chair or the CEO is overdominant at board meetings or management is reluctant to talk at board meetings.<br>▪ Conflicts of interests are a frequent occurrence among the members of the oversight body or actions taken to manage known conflicts of interest are not documented.<br>▪ There is no communication about the organization's code of conduct or there is no code of conduct, or board members are not in compliance with the code's requirements.<br>▪ The regulator is too close to the regulatee and independence is compromised.<br>▪ The chair of the board is involved in the organization's day-to-day management or there is no segregation of duties between the board and management. |

- The board or its committees rarely meet or they hold short, orchestrated, perfunctory meetings.
- The board has no charter and/or no governance manual.
- Board members do not understand their roles, are not aware of the scope of their oversight responsibilities, and believe that many aspects are management's responsibility.
- The organization's governance structure does not include an audit committee.
- Internal audit recommendations are not, or rarely, implemented, or internal audit is being dismantled or outsourced.
- The board does not periodically review regulations that apply to boards of directors.
- The board is too passive in defining its information requirements and/or fails to follow up on information requests.
- There is an absence of risk management policies and processes or risk management policies and processes are not being implemented.
- There are significant organizational problems: poor performance against operational or strategic targets; significant delays and cost overruns; a high number of complaints, penalties, and fines; or risks that are escalating.
- The organization has a history of repeated failures for specific types of projects or initiatives.
- Business activities are not aligned with the organization's mandate.
- There is poor documentation of oversight activities and decisions.
- There is a lack of or misleading performance information.
- There is failure to take follow-up or corrective actions when significant issues are brought to the attention of the board or its committees.

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### Determining the Audit Approach

In addition to deciding how much focus or emphasis to place on oversight in the audit (see the section Determining the Degree of Focus on Oversight for more on this topic), auditors will need to consider which audit approach the audit should adopt. Essentially, this means deciding to adopt either an approach focused on the structures and systems of an oversight body or an approach focused on the results and effectiveness of an oversight body in exercising its oversight functions, roles, and responsibilities.

Focusing on oversight structures and systems means examining an oversight body's:

- structure and mandate,
- roles and responsibilities,
- independence requirements, and
- skills and experience requirements

to determine whether they are adequate, in line with best practices, or comparable with an appropriate benchmark.

Focusing on results and effectiveness aspects means examining the quality of the oversight of an organization's actual:

- performance,
- risk management,
- compliance,
- reporting, and so on.

Given enough time and resources, auditors can combine both approaches and conduct a more complete audit that will provide additional assurance to the report's recipient. The British Columbia audits of Crown agency board governance (2012) and university board governance (2014) are examples of this combined approach.

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### Drafting Audit Objectives

All performance audits need clearly stated objectives that are worded in a manner that allows auditors to conclude against them. Audit objectives should be realistic and achievable and give sufficient information to audited organizations about the focus of the audit.

Audits can have one or several objectives depending on the extent of their scope and their complexity. Office practice will also influence the number of objectives and whether or not sub-objectives are used. (Some audit offices never use sub-objectives.) Sub-objectives can be included in audit plans (for example, one for each line of enquiry), but auditors who decide to do so will still be expected to conclude on their main audit objective.

Objectives for audits of oversight are generally of three different types.

- The first type focuses on the structure and systems of oversight bodies. That is, are oversight processes well designed?
- The second type focuses on the results or effectiveness of oversight bodies in exercising their functions, roles, and responsibilities. That is, are oversight processes working as designed?
- The third type combines the structures/systems and results/effectiveness aspects.

Audit objectives can be either broad in scope, encompassing the overall oversight framework, or narrow in scope, covering only a specific oversight requirement. Selecting one type or the other may depend on audit office practices and available resources to conduct the audit. **Table 7** provides examples of broad and narrow audit objectives for both structures/systems and results/effectiveness audits. These examples cover key structures/systems aspects of oversight bodies (clear roles and responsibilities, independence, skills and knowledge, and information flow), as well as a number of important roles usually played by oversight bodies (overseeing risk management, monitoring compliance and performance, taking corrective actions, and reporting).

When sufficient time and resources are available, examining both structures/systems and results/effectiveness aspects is desirable because this approach provides more complete information and additional assurance to the audit report’s recipient. By examining both aspects, auditors reduce the risk of reaching an incomplete or irrelevant conclusion. For example, concluding that systems are implemented as designed would be of limited value if the systems’ design was poor in the first place. Similarly, simply concluding that well-designed systems are in place would provide only limited value if the systems are not actually used and implemented as designed.

This being said, focusing solely on the structures/systems aspect is a valid option when it is too early to obtain result information. It is also possible for auditors who decide to focus on results and effectiveness to cover structures/systems issues in their report if these issues come up when analyzing the root cause of observed deficiencies.

## Table 7 – Examples of Audit Objectives for Audits of Oversight in Agencies, Boards and Authorities

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **1. Overall oversight framework** | To determine whether the structures and processes established for the organization set the framework for effective oversight. | To determine whether oversight structures and processes are implemented as intended and resulting in effective oversight. |
| **2. Oversight roles and responsibilities** | To determine whether the board (or governing body) has clear oversight roles and responsibilities and a clear mandate to carry out specific oversight functions. | To determine whether the board (or governing body) is fulfilling its oversight roles and responsibilities and carrying out its oversight functions as defined in its charter (or mandate). |
| | To determine whether the committee structure put in place by the board (or governing body) provides for adequate oversight of key corporate functions and operations. | To determine whether the committees of the board (or governing body) are fulfilling their respective oversight roles and responsibilities. |
| | To determine whether the board (or governing body) has established an audit committee and clearly defined its oversight roles and responsibilities. | To determine whether the audit committee is fulfilling its assigned oversight roles and responsibilities. |
| **3. Independence** | To determine whether the board (or governing body) has established clear independence requirements for its members and put in place a policy or process to manage perceived and actual conflicts of interests. | To determine whether the board (or governing body) and its committees are effectively managing independence risks to ensure that they perform their oversight responsibilities objectively.<br><br>To determine whether the board (or governing body) and its committees actively manage conflicts of interest in accordance with policy requirements (or best practices). |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **4. Skills and knowledge** | To determine whether the board (or governing body) has defined the skills, knowledge, and experience that board and committee members must possess in order to have the capacity to fulfill their oversight responsibilities. | To determine whether the board (or governing body) and its committees collectively possess the skills, knowledge, and experience to fulfill their oversight responsibilities. |
| **5. Sufficient and appropriate information** | To determine whether the board (or governing body) has defined its information needs and communicated those needs to management. | To determine whether the board (or governing body) receives the information it needs to fulfill its oversight responsibilities.<br><br>To determine whether the board (or governing body) regularly assesses the quality and sufficiency of the information that management provides it with. |
| **6. Risk management** | To determine whether the board (or governing body) has approved a risk management policy and clearly allocated roles and responsibilities in this area. | To determine whether the board (or governing body) is aware of the key risks facing the organization.<br><br>To determine whether the board ensures that management has established adequate processes to monitor and mitigate key organizational risks. |
| **7. Performance monitoring** | To determine whether the board (or governing body) has put in place adequate systems and practices to monitor the organization's performance in meeting its established objectives. | To determine whether the board (or governing body) is conducting effective performance monitoring to ensure that the organization is meeting its established objectives. |
| **8. Compliance** | To determine whether the board (or governing body) has put in place adequate controls to ensure that it is aware of the organization's state of compliance and of any need for corrective actions. | To determine whether the board (or governing body) is regularly monitoring the organization's compliance with laws, regulations, bylaws, and ethical requirements, and taking corrective actions as necessary. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **9. Corrective actions** | To determine whether the board (or governing body) has put in place adequate controls to ensure that corrective actions are taken in a timely manner. | To determine whether the board (or governing body) is taking timely corrective actions when inefficiencies, poor performance, substandard results, or instances of non-compliance are identified and brought to its attention. |
| **10. External reporting** | To determine whether the board (or governing body) has clearly identified the accountability reports it needs to receive, review, and approve. | To determine whether the board (or governing body) regularly reviews and approves key accountability reports. |
| **11. Performance evaluation** | To determine whether there is an adequate process in place to evaluate the board's (or governing body's) performance in fulfilling its oversight responsibilities. | To determine whether the board (or governing body) regularly evaluates its own performance in fulfilling its oversight responsibilities. |
| **12. Government/ Ministerial oversight** | To determine whether the government/ Minister has established a clear framework for the oversight of the organization. | To determine whether the government/ Minister exercises adequate oversight of the organization. |

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### Selecting Audit Criteria

Audit criteria represent the standards expected to be met by an audited organization. Audit criteria are a key contributor to an audit's strength and potential impact. Audit procedures focus on determining whether criteria are met or not met. Suitable criteria are clear, concise, relevant, reliable, neutral, understandable, and complete.

Finding suitable criteria is a challenge for any performance (value-for-money) audit, not just for audits of oversight. Each audit is unique due to the auditor's mandate, audit focus, audit objectives, and the way the organization being audited approaches the audit's subject matter. However, the governing bodies of agencies, boards and authorities usually share many organizational and operational aspects and many studies have been published on board governance. As a result, guidance already exists about the audit criteria that can be used to audit oversight in Crown corporations or agencies. The criteria presented as examples in this section are largely derived from the work of the Canadian Council of Legislative Auditors (CCOLA) Governance Study Group and the Office of the Auditor General of Canada.

Examples of audit criteria and sub-criteria that can be used to audit oversight structures/systems and their results/effectiveness in agencies, boards and authorities are presented in **Table 8**. The criteria and sub-criteria are divided into 11 categories:

1. Oversight roles and responsibilities
2. Independence
3. Skills and knowledge
4. Sufficient and appropriate information
5. Risk management
6. Performance monitoring
7. Compliance
8. Corrective actions
9. External reporting
10. Performance assessment
11. Government oversight

These categories correspond to the audit objective topic numbers 2 to 12 in **Table 7**. Objective topic 1 in **Table 7**, the overall oversight framework, is very broad and would need, in practice, to be supported by a selection of criteria taken from these 11 sub-categories.

Auditors are not expected to use all of the suggested criteria. Rather, they can pick and choose those that are most relevant to the scope of the audit and document the rationale for their selection. They can also develop additional criteria where needed, in order to conclude on their audit objective(s).

Auditors should always use their professional judgment to select audit criteria and to determine whether the expectations defined by the criteria are reasonable given the nature and operational constraints of the audited organization. The reasonableness of potential criteria is, in part, a function of the degree to which they represent a balance between cost, risk, and effectiveness. For example, it would not be reasonable to expect an organization to adopt an unproven, costly control measure to mitigate a minor risk.

## Table 8 – Examples of Audit Criteria that Can Be Used to Audit the Oversight of Agencies, Boards and Authorities

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **1. Oversight roles and responsibilities** | **Criterion:** The oversight body and its committees have clearly defined oversight roles and responsibilities.<br><br>**Sub-criteria:**<br><br>▪ The oversight body has clearly defined oversight roles, responsibilities, and authorities.<br>▪ Each committee of the oversight body has terms of reference that clearly define its areas of responsibility and level of authority, and that have been approved by the board.<br>▪ The roles and responsibilities of the audit committee, set down in its terms of reference, include:<br>o maintenance of an effective internal/external audit function,<br>o maintenance of a suitable risk management and internal control framework,<br>o meeting frequency and core agenda items,<br>o committee authority, and<br>o reporting to the oversight body. | **Criterion:** The oversight body and its committees fulfill their assigned oversight roles and responsibilities. |

| Topic | Structures and Systems | Results and Effectiveness |
| --- | --- | --- |
| **2. Independence** | **Criterion:** The oversight body and its committees have established systems and procedures to ensure that members have, and can demonstrate, the independence necessary to perform their oversight responsibilities objectively.<br><br>**Sub-criteria:**<br><br>▪ The oversight body has established clear policy and guidance about independence requirements. Specific prohibitions are listed and guidance covers the various forms of independence threats (self review, self-interest, advocacy, familiarity, and intimidation) and how they are to be addressed.<br>▪ Oversight body members have to sign an annual independence declaration that requires them to disclose any known independence threats and confirm their understanding of the organization's independence policy. | **Criteria:**<br><br>▪ Members of the oversight body and its committees comply with applicable independence policies.<br>▪ Independent oversight body members hold regular *in camera* meetings without management in attendance.<br>▪ The internal audit function reports to the oversight body or its audit committee, and its independence from management is supported by the oversight body. |
| **3. Skills and knowledge** | **Criterion:** The skills, knowledge and experience required of oversight body members have been identified and communicated.<br><br>**Sub-criteria:**<br><br>▪ The oversight body has profiled the skills and knowledge required of individual members and for the oversight body as a whole to ensure effective oversight of the organization. The oversight body | **Criterion:** Oversight body members have the skills, knowledge and experience they require to effectively discharge their oversight responsibilities.<br><br>**Sub-criteria:**<br><br>▪ The skills and knowledge of oversight body members are aligned with those described in the oversight body profile.<br>▪ The oversight body has access to and uses outside expertise when |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| | has shared this profile with the responsible minister.<br>▪ An orientation program has been developed to provide all new oversight body members with information on:<br>o the roles and responsibilities of the oversight body and its committees;<br>o the organization's mandate, vision, mission, and strategic plan;<br>o the organization's compliance regime; and<br>o the organization's accountability framework. | necessary to fill gaps in its skills and expertise profile.<br>▪ Committee members have the qualifications, skills, and competencies necessary to effectively fulfill the committee's role and responsibilities, as defined in its terms of reference.<br>▪ All oversight body members receive sufficient, appropriate training and guidance to provide them with a working knowledge of their corporation and the environment within which it operates. |
| **4. Sufficient and appropriate information** | **Criteria:**<br><br>The oversight body has defined the information and knowledge it needs from management (on performance, compliance, risk management, financial management, etc.) to effectively exercise its oversight role and communicated these needs to management.<br><br>The oversight body has established a process to periodically review the quality and quantity of information it receives from management and external sources. | **Criterion:** The oversight body and its committees have sufficient relevant and reliable information to fulfill their oversight responsibilities.<br><br>**Sub-criteria:**<br><br>▪ The oversight body ensures that it receives sufficient and appropriate information on a timely basis to support oversight body decision making overall.<br>▪ The oversight body ensures that it receives appropriate (credible, complete, timely) financial, performance, and risk information to allow it to:<br>o fully assess the corporation's performance at regular intervals;<br>o ensure that pertinent legislation, regulations, |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| | | corporate bylaws, and board policies are being complied with; and<br>o ensure that key risks are being adequately managed.<br>▪ Where additional information is required to make an assessment or a decision, the oversight body requests such information from management and/or external sources, and ensures that it is obtained on a timely basis. The oversight body defers decisions when appropriate information has not yet been received.<br>▪ Periodically, the oversight body looks critically at the quality and quantity of information it receives from management and external sources to ensure that this information allows the oversight body to effectively discharge its oversight responsibilities. |
| **5. Risk management** | **Criterion:** The oversight body has established a risk management policy framework for the organization. | **Criterion:** The oversight body and its committees effectively oversee the organization's risk management policies and processes.<br><br>**Sub-criteria:**<br><br>▪ The oversight body understands the organization's key risks.<br>▪ The oversight body reviews and challenges management's plans on how to avoid, control, accept, or transfer key risks to the organization before approving them. |

| Topic | Structures and Systems | Results and Effectiveness |
| --- | --- | --- |
| | | ▪ The oversight body monitors the organization's implementation of risk management policies, processes and internal controls to ensure they are working as intended. |
| **6. Performance monitoring** | **Criteria:**<br><br>The oversight body has established a Performance Management Framework for the organization.<br><br>Performance targets and pertinent indicators are in place to enable the oversight body to properly monitor the organization's performance. | **Criterion:** The oversight body is effectively monitoring the organization's performance in relation to its mandate and stated objectives.<br><br>**Sub-criteria:**<br><br>▪ The oversight body regularly monitors organizational and management performance and challenges management about the quality and reliability of the available performance information.<br>▪ The oversight body regularly monitors and evaluates the CEO's performance and takes appropriate action where that performance is judged to be below expectations. |
| **7. Compliance** | **Criterion:** Systems and practices are in place to monitor the compliance of the organization with enabling legislation, regulations, bylaws, and oversight body policies. | **Criteria:**<br><br>The oversight body obtains assurance that enabling legislation, regulations, bylaws, and board policies are being complied with.<br><br>The oversight body ensures that the organization's code of conduct is communicated to all staff, that compliance with its requirements is monitored, and that action is taken when deviations are identified. |

| Topic | Structures and Systems | Results and Effectiveness |
| --- | --- | --- |
| **8. Taking corrective actions** | **Criterion:** The oversight body has put in place adequate controls to ensure that corrective actions are taken in a timely manner (to address performance or compliance issues, weak risk management or financial management practices, etc.). | **Criterion:** Evidence exists that, based on the information they receive, oversight body members make decisions, provide direction, and follow up on actions taken in response. |
| **9. External reporting** | **Criterion:** The oversight body has determined which accountability reports it needs to receive, review and approve. | **Criteria:**<br><br>The oversight body and its committees regularly review and approve key accountability reports.<br><br>The audit committee provides an adequate challenge and review of financial statements and the associated management discussion and analysis, and of any other financial information and performance information to be released by the organization, before their release. |
| **10. Assessment of the oversight body's performance** | **Criteria:**<br><br>The oversight body has adopted a policy that requires it to periodically assess its performance.<br><br>A process is in place to periodically assess the performance of the oversight body and its committees in discharging their oversight responsibilities. | **Criterion:** The performance of the oversight body and its committees in discharging their oversight responsibilities is assessed periodically.<br><br>**Sub-criteria:**<br><br>▪ The collective performance of the oversight body, its committees, and individual members is self-assessed periodically, and an appropriately transparent mechanism is used in reporting the assessment results.<br>▪ The oversight body complies with the corporation's values and ethics. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| | | ▪ The oversight body and its committees hold a sufficient number of meetings each year to fulfill their roles and responsibilities.<br>▪ The oversight body and its committees keep adequate meeting minutes and supporting documentation.<br>▪ The oversight body works well as a team and has effective decision-making processes in place. |
| **11. Government oversight** | **Criterion:** The government has defined and communicated its expectations with regard to the organization's performance and reporting thereof.<br><br>**Sub-criteria:**<br><br>▪ Government provides a letter of expectations or similar document annually to the overseen organization that specifies expected performance for the year, including the targets that government will use in evaluating its performance.<br>▪ Government clearly communicates the performance reporting it requires from the overseen organization in order to evaluate its performance.<br>▪ The conditions under which the overseen organization should consult government for direction are clearly documented. | **Criteria:**<br><br>The government exercises adequate oversight of the organization.<br><br>Government takes, and follows up on, corrective actions when significant issues in the overseen organization are brought to its attention. |

Source: These criteria and sub-criteria have been modified from the CCOLA Governance Study Group's *Crown Agency Governance: Audit Objectives & Criteria* and from the Office of the Auditor General of Canada's *Recommended General Criteria & Sub-Criteria* (for special examinations of Crown corporations).

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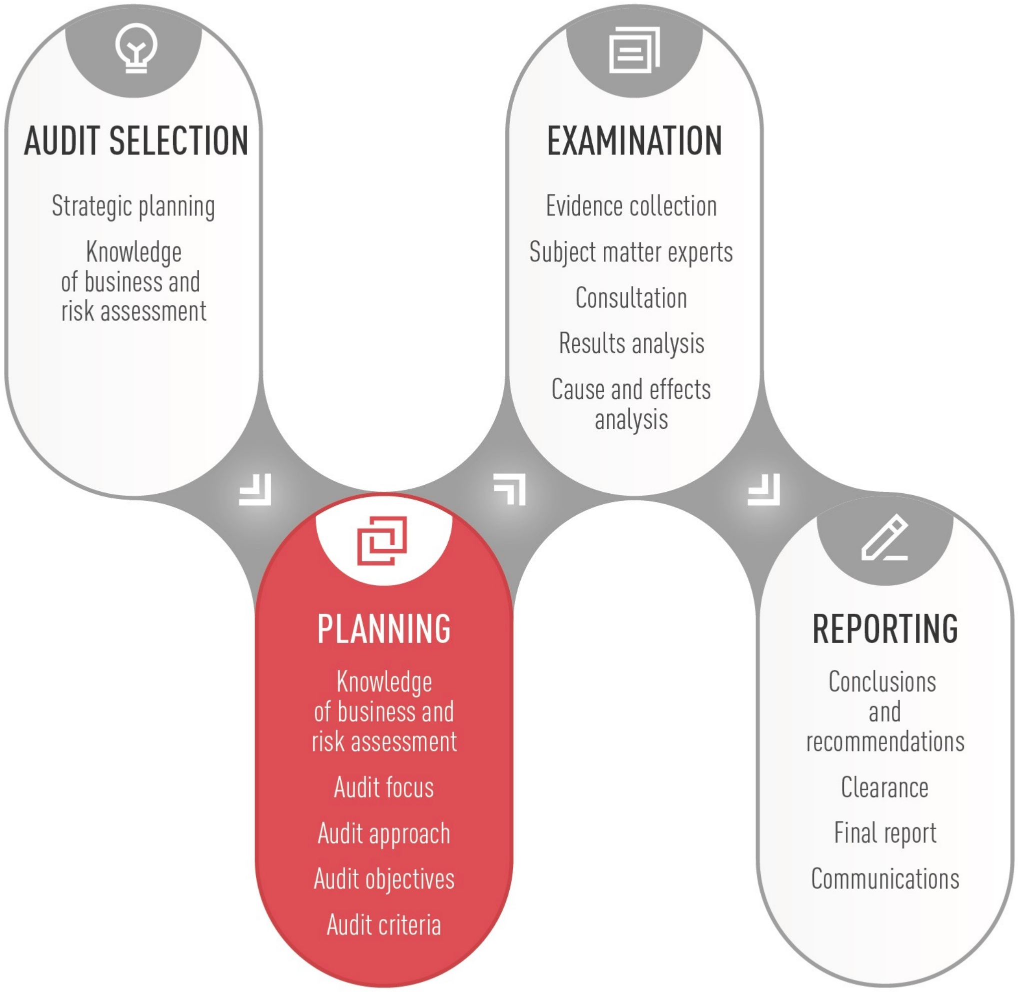
## Planning an Audit of Oversight of a Major Initiative in a Department




This section of the Practice Guide is organized in accordance with the key actions and decisions that need to be taken during the planning phase of the audit process:

- Acquiring knowledge of business and assessing risk
- Determining the audit approach
- Drafting audit objectives
- Selecting audit criteria

Although these topics are presented in a specific order, planning a performance (value-for-money) audit is rarely a linear process. In fact, the planning process is often iterative, with decisions in one step requiring the audit team to review decisions made in previous steps to ensure the audit plan's overall coherence.

## Acquiring Knowledge of Business and Assessing Risk

Auditing procedures typically require auditors to acquire knowledge of the organization and subject matter being audited and to prepare a risk-based audit plan. In practice, this means that the audit team needs to:

- collect knowledge of business information about the governance structure of selected major initiatives (critical projects, programs, or services), especially regarding oversight bodies and functions and
- identify significant areas that would benefit from an examination of oversight.

As in all performance (value-for-money) audits, the auditor’s understanding of significance and risks will be used to identify particular activities or aspects of the major initiative being audited to include in the audit and to develop audit objectives. This section of the Practice Guide is designed to help auditors acquire a sound understanding of significance and risks by providing them with examples of:

- general audit questions that can be used to better understand oversight roles and responsibilities relevant to the major initiative(s) being audited and
- indicators that oversight may be at risk in the major initiative(s) selected for audit.

While these tools will be helpful, auditors should keep in mind that the Practice Guide does not foresee all possible situations. Applying professional judgment and knowing the particularities of each selected organization are key success factors for the planning phase of any audit of oversight.

### Acquiring knowledge of business

The early stage of planning a performance audit requires that auditors develop a sound understanding of the nature, objectives, and activities of the organization or organizations that will be audited. This involves obtaining basic information on an organization’s mandate, organizational structure, accountability relationships, programs, resources, key risks, past performance, and so on. It also means gathering more detailed information on specific systems and practices in areas that auditors are particularly interested in, including oversight.

At this stage, if not already done during the audit selection process, auditors interested in auditing the oversight of a critical program, project, or service would be expected to clearly document what aspects of the selected initiative make it an especially important one that requires strong oversight:

- Is the initiative a high-risk one?
- Is it a key government-wide initiative?
- Does it involve large sums of public money?
- Has the initiative’s implementation been delegated to a private sector provider?
- Is the initiative of primary importance to a large proportion of citizens?

In addition to determining why the selected initiative is particularly important, auditors will need to have a clear understanding of key targets, performance expectations, and outcomes for this initiative. Knowing this will be important for auditors who intend to audit how the department oversees the initiative's performance and takes corrective actions when performance issues arise.

Auditors will also need to obtain information on the structures and processes put in place to govern and oversee the selected initiative. **Table 9** provides a list of questions that will help auditors gather information on oversight structures and systems, while **Table 10** provides a list of questions about their results and effectiveness.

At this stage of the audit process, auditors can ask questions that will provide them with an overview of an initiative's oversight regime without requiring them to conduct extensive research and file reviews. Auditors typically ask more detailed questions that would require in-depth review and testing of evidence in the audit's examination phase.

## Table 9 – Knowledge of Business: Questions on Oversight Structures and Systems

| Questions |
| --- |
| ▪ What structure has been put in place to govern and oversee the selected major initiative (program, project, or service)? How many senior officials are part of this structure? What are their respective positions within the department?<br>▪ Has the government or department formally provided the oversight body with clear performance expectations and information on the key outcomes to be achieved?<br>▪ Are there terms of reference (or a similar document) that define the oversight body's mandate and the specific roles and responsibilities of its members? Does the mandate include clear authority to conduct specific oversight functions? What are these oversight functions and how are they conducted?<br>▪ Are there independence requirements for the oversight body and its members? Are the members of the oversight structure also involved in the day-to-day management of the selected initiative? Are there processes in place to manage conflicts of interest and other threats to independence?<br>▪ How often do the oversight body's members meet? Are records of those meetings kept on file?<br>▪ What information does the oversight body need to make informed decisions (business case, expected benefits, targets, baselines, timelines, etc.)? Have those needs been documented and communicated to managers of the selected initiative? What systems has management put in place to help produce the required information?<br>▪ Is the oversight body's performance in fulfilling its roles and responsibilities periodically assessed?<br>▪ To whom is the oversight body accountable? What accountability reports and information does it provide?<br>▪ What resources are allocated to the oversight body each year? Are there significant resource gaps? |

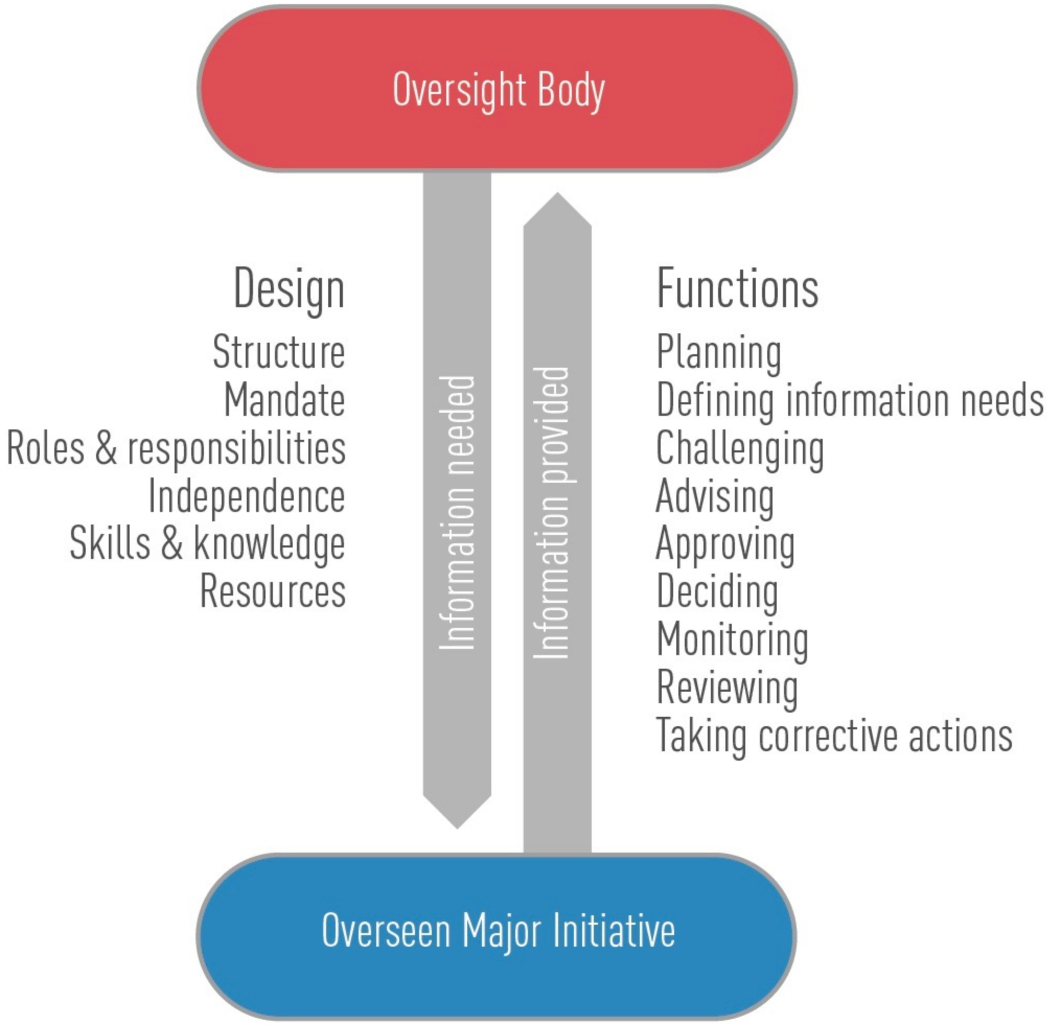
## Table 10 – Knowledge of Business: Questions on Results and Effectiveness

| Questions |
| --- |
| ▪ Is the oversight body receiving the information it requests from the management of the selected initiative? Is this information of good quality?<br>▪ How does the oversight body obtain assurance that the selected initiative is in compliance with laws, regulations, bylaws, and the organization's code of ethics? Is compliance regularly monitored?<br>▪ Has the oversight body ensured that adequate risk management practices exist for the selected initiative? Is the oversight body aware of the key risks facing the initiative? Are risk profiles and risk mitigation strategies prepared by initiative managers regularly reviewed by the oversight body?<br>▪ Is there a process in place for the oversight body to monitor the implementation of recommendations of internal audits and evaluations related to the selected initiative? Are actions taken in response to the recommendations of internal audits and evaluations?<br>▪ Can the results of important oversight activities or functions be measured? Is there a monitoring system in place? Is performance information available? How is performance data gathered, used, and reported?<br>▪ What performance information is reported by the oversight body to fulfill its accountability responsibilities? Is the information reported complete, accurate and transparent? That is, do the reports include sufficient information for readers to be able to understand key results and evaluate performance?<br>▪ Does the oversight body periodically evaluate its performance in discharging its oversight roles and responsibilities? |

Completing the knowledge of business part of their audit planning will help auditors to draw an overall picture of the oversight of their selected initiative. It will also help them determine what the most important oversight functions are and why. Equipped with this information, auditors will be able to start considering where the audit could fall on the spectrum of audits of oversight.

In addition to drawing inspiration from the questions included in **Table 9** and **Table 10**, auditors can use the overall oversight framework presented in **Figure 12** as a reference or when developing their knowledge of business questions.

## Figure 12 – Overall Oversight Framework for a Major Initiative




**Assessing risk**

Assessing potential risk is an important task when selecting the most significant oversight issues to audit. Auditors can review the information they have gathered early in the audit (governance structure, minutes of board or committee meetings, and so on) and determine whether they can identify indicators that oversight of the selected project, program, or service may be at risk.

A list of common indicators that oversight may be at risk is presented in **Table 11**. While such indicators can be useful to target further examination work, their presence should not be indiscriminately accepted as evidence that an oversight deficiency exists. Auditors must always gather sufficient appropriate evidence to support a cause-and-effect relationship before concluding that the presence of an indicator means that an actual deficiency exists.

## Table 11 – Indicators that Oversight May Be at Risk

| Indicators |
|---|
| ▪ A wholesale change of oversight body members took place or turnover is very high.<br>▪ The oversight body does not (or rarely) question and challenge the managers of the overseen initiative.<br>▪ The chair of the oversight body is overdominant at oversight meetings.<br>▪ Conflicts of interests are a frequent occurrence among the members of the oversight body and/or actions taken to manage known conflicts of interest are not documented.<br>▪ Oversight body members are involved in the day-to-day management of the overseen initiative or there is no segregation of duties between the oversight body and the management of the initiative.<br>▪ The oversight body rarely meets or holds short, orchestrated, perfunctory meetings.<br>▪ The oversight body has no charter or clear terms of reference.<br>▪ Oversight body members do not understand their roles, are not aware of the scope of their oversight responsibilities, and believe that many aspects are management's responsibility.<br>▪ Internal audit recommendations are not, or rarely, implemented, or internal audit is being dismantled or outsourced.<br>▪ The oversight body does not periodically seek assurance that the overseen initiative is in compliance with applicable legislation, regulations, and policies.<br>▪ The oversight body is too passive in defining its information requirements and/or fails to follow up on information requests.<br>▪ There is an absence of risk management policies and processes applicable to the overseen initiative, or risk management policies and processes are not being implemented as intended.<br>▪ There are significant performance problems in the overseen initiative: poor performance against operational or strategic targets; significant delays and cost overruns; a high number of complaints, penalties, and fines; or risks that are escalating.<br>▪ The overseen initiative is not aligned with the department's mandate.<br>▪ There is poor documentation of oversight activities and decisions.<br>▪ Oversight body provided with too much information, or poorly organized information prior to oversight meetings<br>▪ Oversight body not provided with oversight information sufficiently in advance of oversight meetings to facilitate meaningful review.<br>▪ There is a lack of or misleading performance information.<br>▪ There is a failure to take follow-up or corrective actions when significant issues are brought to the attention of the oversight body. |

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### Determining the Audit Approach

In addition to deciding how much focus or emphasis to place on oversight in the audit (see the section Determining the Degree of Focus on Oversight for more on this topic), auditors will need to consider which audit approach they should adopt. Essentially, this means deciding to adopt either an approach focused on the design of oversight structures and systems or an approach focused on the results and effectiveness of the oversight body in exercising its oversight functions, roles, and responsibilities.

Focusing on oversight structures and systems means examining the oversight body's:

- structure and mandate,
- roles and responsibilities,
- independence requirements, and
- skills and experience requirements

to determine whether they are adequate, in line with best practices, or comparable with an appropriate benchmark.

Focusing on results and effectiveness aspects means examining the quality of the oversight of the selected initiative's actual:

- performance,
- risk management,
- compliance,
- reporting, and so on.

Given sufficient time and resources, auditors can combine both approaches and conduct a more complete audit that will provide additional assurance to the report's recipient.

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### Drafting Audit Objectives

All performance audits need clearly stated objectives that are worded in a manner that allows auditors to conclude against them. Audit objectives should be realistic and achievable and give sufficient information to audited organizations about the focus of the audit.

Audits can have one or several objectives depending on the extent of their scope and their complexity. Office practice will also influence the number of objectives and whether or not sub-objectives are used. (Some audit offices never use sub-objectives.) Sub-objectives can be included in audit plans (for example, one for each line of enquiry), but auditors who decide to do so will still be expected to conclude on their main audit objective.

Objectives for audits of oversight are generally of three different types.

- The first type focuses on the structures and systems of oversight bodies, functions, and processes. That is, are oversight processes well designed?
- The second type focuses on the results and effectiveness of oversight bodies in exercising their functions, roles, and responsibilities. That is, are oversight processes working as designed?
- The third type combines the structures/systems and results/effectiveness aspects.

Audit objectives can be either broad in scope, encompassing the overall oversight framework, or narrow in scope, covering only a specific oversight requirement. Selecting one type or the other may depend on audit office practices and available resources to conduct the audit. **Table 12** provides examples of broad and narrow audit objectives for both structures/systems and results/effectiveness audits. These examples cover key oversight structures/systems (mandate, clear roles and responsibilities, independence, skills, and knowledge), as well as a number of important roles usually played by oversight bodies (overseeing risk management, monitoring compliance and performance, taking corrective actions, and reporting).

Audit teams can combine both structures/systems and results/effectiveness objectives in an audit of oversight, granted they have sufficient time and resources to do so. Examining both design and effectiveness aspects is desirable since this approach provides more complete information and additional assurance to the audit report's recipient. By examining both aspects, auditors reduce the risk of reaching an incomplete or irrelevant conclusion. For example, concluding that systems are implemented as designed would be of limited value if the systems' design was poor in the first place. Similarly, simply concluding that well-designed systems are in place would provide only limited value if the systems are not actually used and implemented as designed.

This being said, focusing solely on the structures/systems aspect is a valid option when it is too early to obtain result information. It is also possible for auditors who decide to focus on results and effectiveness to cover design issues in their report if these issues come up when analyzing the root cause of observed deficiencies.

## Table 12 – Examples of Audit Objectives for Audits of Oversight of Major Initiatives in Departments and Ministries

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **1. Overall oversight framework** | To determine whether the structures and processes established for the initiative set the framework for effective oversight. | To determine whether the oversight structures and processes put in place for the initiative are implemented as intended and resulting in effective oversight. |
| **2. Oversight roles and responsibilities** | To determine whether the oversight body has clear roles and responsibilities and a clear mandate to carry out specific oversight functions. | To determine whether the oversight body is fulfilling its roles and responsibilities and carrying out its oversight functions as defined in its terms of reference (or mandate). |
| **3. Independence** | To determine whether the oversight body has established clear independence requirements for its members and put in place a policy or process to manage perceived and actual conflicts of interests for the selected major initiative. | To determine whether the oversight body is effectively managing independence risks to ensure that its members perform their oversight responsibilities objectively.<br><br>To determine whether the oversight body actively manages conflicts of interest in accordance with policy requirements (or best practices). |
| **4. Skills and knowledge** | To determine whether the oversight body has defined the skills, knowledge, and experience that its members must possess in order to have the capacity to fulfill their oversight responsibilities for the selected major initiative. | To determine whether the oversight body members collectively possess the skills, knowledge, and experience to fulfill their oversight responsibilities. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **5. Sufficient and appropriate information** | To determine whether the oversight body has defined its information needs and communicated those needs to initiative managers. | To determine whether the oversight body receives the information it needs to fulfill its oversight responsibilities.<br><br>To determine whether the oversight body regularly assesses the quality and sufficiency of the information that initiative managers provide it with. |
| **6. Risk management** | To determine whether the oversight body has approved a risk management policy or procedure and clearly allocated roles and responsibilities in this area. | To determine whether the oversight body is aware of the key risks facing the organization in relation to the selected major initiative.<br><br>To determine whether the oversight body ensures that management has established adequate processes to monitor and mitigate the major initiative's key organizational risks. |
| **7. Performance monitoring** | To determine whether the oversight body has ensured there are adequate systems and practices to monitor the initiative's performance in relation to its established objectives. | To determine whether the oversight body is conducting effective performance monitoring to ensure that the initiative is meeting its established objectives. |
| **8. Compliance** | To determine whether the oversight body has put in place adequate controls to ensure that it is aware of the initiative's compliance with laws, regulations, and policies, and of any need for corrective actions. | To determine whether the oversight is regularly monitoring the initiative's compliance with laws, regulations, policies, and ethical requirements, and taking corrective actions as necessary. |
| **9. Corrective actions** | To determine whether the oversight body has put in place adequate controls to ensure that corrective actions are taken in a timely manner. | To determine whether the oversight body is taking timely corrective actions when inefficiencies, poor performance, substandard results, or instances of non-compliance are identified and brought to its attention. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **10. Reporting** | To determine whether the oversight body has clearly identified the accountability reports it needs to receive (from initiative managers), review, and approve. | To determine whether the oversight body regularly reviews and approves key accountability reports prepared by initiative managers. |
| **11. Performance evaluation** | To determine whether there is an adequate process in place to evaluate the oversight body's performance in fulfilling its oversight responsibilities. | To determine whether the oversight body's performance in fulfilling its responsibilities is regularly evaluated. |

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### Selecting Audit Criteria

Audit criteria represent the standards expected to be met by an audited organization. Audit criteria are a key contributor to an audit's strength and potential impact. Audit procedures focus on determining whether criteria are met or not met. Suitable criteria are clear, concise, relevant, reliable, neutral, understandable, and complete.

Finding suitable criteria is a challenge for any performance (value-for-money) audit, not just for audits of oversight. Each audit is unique due to the auditor's mandate, audit focus, audit objectives, and the way the organization being audited approaches the audit's subject matter.

The criteria presented as examples in this section are largely derived from the work of the CCOLA Governance Study Group and the Office of the Auditor General of Canada.

Examples of audit criteria and sub-criteria that can be used to audit the structures/systems and results/effectiveness of oversight bodies responsible for the oversight of major initiatives in departments and ministries are presented in **Table 13**. The criteria and sub-criteria are divided into 10 categories:

1. Oversight roles and responsibilities
2. Independence
3. Skills and knowledge
4. Sufficient and appropriate information
5. Risk management
6. Performance monitoring
7. Compliance
8. Corrective actions
9. External reporting
10. Performance assessment

These categories correspond with the audit objective topic numbers 2 to 11 in **Table 12**. Oversight topic 1 in **Table 12**, the overall oversight framework, is very broad and would need, in practice, to be supported by a selection of criteria taken from these 10 sub-categories.

Auditors are not expected to use all of the suggested criteria. Rather, they can pick and choose those that are most relevant to the scope of the audit and document the rationale for their selection. They can also develop additional criteria where needed, in order to conclude on their audit objective(s).

Auditors should always use their professional judgment in selecting audit criteria and determining whether the expectations defined by the criteria are reasonable given the nature and operational constraints of the audited organization. The reasonableness of potential criteria is, in part, a function of the degree to which they represent a balance between cost, risk, and effectiveness. For example, it would not be reasonable to expect an organization to adopt an unproven, costly control measure to mitigate a minor risk.

While the criteria presented in **Table 13** have been designed for situations where there is a clear oversight structure in place, many can be adapted to audit situations where there is no such structure but it would be reasonable to expect one. In such situations, auditors could adopt a general objective about whether there is adequate oversight in place for a major initiative and select and adapt a number of audit criteria based on what could reasonably be expected in each specific situation, based on good management principles and best practices.

## Table 13 – Examples of Audit Criteria that Can Be Used to Audit the Oversight of a Major Initiative in a Department or Ministry

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **1. Oversight roles and responsibilities** | **Criterion:** The oversight body has clearly defined oversight roles and responsibilities. | **Criterion:** The oversight body fulfills its assigned oversight roles and responsibilities. |
| **2. Independence** | **Criteria:**<br><br>The oversight body has established clear policy and guidance about independence requirements. Specific prohibitions are listed and guidance covers the various forms of independence threats (self review, self-interest, advocacy, familiarity, and intimidation) and how they are to be addressed.<br><br>Oversight body members have to sign an annual independence declaration that requires them to disclose any known independence threats and confirm their understanding of the applicable independence policy. | **Criterion:** The oversight body has the independence necessary to perform its oversight responsibilities objectively.<br><br>**Sub-criteria:**<br><br>Members of the oversight body comply with applicable independence policies.<br><br>Independent members of the oversight body hold regular *in camera* meetings without initiative management in attendance. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **3. Skills and knowledge** | **Criterion:** The skills, knowledge and experience required of oversight body members have been defined and communicated. | **Criterion:** Collectively, oversight body members have the skills and knowledge they require to effectively discharge their oversight responsibilities.<br><br>**Sub-criteria:**<br><br>▪ Oversight body members have the qualifications, skills, and competencies necessary to effectively fulfill the committee's role and responsibilities, as defined in its terms of reference.<br>▪ The oversight body has access to and uses outside expertise when necessary to fill gaps in its skills and expertise profile.<br>▪ All oversight body members receive sufficient, appropriate training and guidance to provide them with a working knowledge of the selected initiative and the environment within which it operates. |
| **4. Sufficient and appropriate information** | **Criterion:** The oversight body has defined the information and knowledge it needs to effectively exercise its oversight role. | **Criterion:** The oversight body has sufficient relevant and reliable information about the selected major initiative to fulfill its oversight responsibilities.<br><br>**Sub-criteria:**<br><br>▪ The oversight body ensures that it receives sufficient and appropriate information on a timely basis to support decision making overall. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| | | ▪ The oversight body ensures that it receives appropriate (credible, complete, and timely) financial, performance, and risk information to allow it to:<br>o fully assess the initiative's performance at regular intervals;<br>o ensure that the initiative complies with applicable legislation, regulations, and policies; and<br>o ensure that key initiative risks are being adequately managed.<br>▪ Where additional information is required to make an assessment or a decision, the oversight body requests such information from initiative management and/or external sources, and ensures that it is obtained on a timely basis. The oversight body defers decisions when appropriate information has not yet been received.<br>▪ Periodically, the oversight body looks critically at the quality and quantity of information it receives from initiative management and external sources to ensure that this information allows it to effectively discharge its oversight responsibilities. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **5. Risk management** | **Criterion:** The oversight body ensures that appropriate risk management policies and internal controls are put in place to mitigate the initiative's key risks in a cost-effective manner. | **Criterion:** The oversight body effectively oversees the initiative's risk management policies and processes.<br><br>**Sub-criteria:**<br><br>▪ The oversight body understands the initiative's key risks and ensures that a risk assessment process is in place for the initiative.<br>▪ The oversight body reviews and challenges management's plans on how to avoid, control, accept, or transfer key initiative risks before approving them.<br>▪ The oversight body monitors the implementation of risk management processes and internal controls applicable to the initiative to ensure they are working as intended. |
| **6. Performance monitoring** | **Criterion:** The oversight body ensures that performance targets and pertinent indicators are in place to enable it to properly monitor the initiative's performance. | **Criteria:**<br><br>The oversight body is effectively monitoring the initiative's performance in relation to its stated objectives and intended outcomes.<br><br>The oversight body challenges management about the quality and reliability of the available performance information. |
| **7. Compliance** | **Criterion:** Systems and practices are in place to monitor the compliance of the initiative with applicable legislation, regulations and policies. | **Criterion:** The oversight body obtains assurance that the initiative is in compliance with applicable legislation, regulations, and policies. |

| Topic | Structures and Systems | Results and Effectiveness |
|---|---|---|
| **8. Taking corrective actions** | **Criterion:** The oversight body has put in place adequate controls to ensure that corrective actions are taken in a timely manner. | **Criterion:** Evidence exists that, based on the initiative information they receive, oversight body members make decisions, provide direction, and follow up on actions taken in response. |
| **9. External reporting** | **Criterion:** The oversight body has determined which accountability reports it needs to receive, review and approve. | **Criterion:** The oversight body regularly reviews and approves key accountability reports produced by initiative managers. |
| **10. Performance assessment** | **Criterion:** A process is in place to periodically assess the performance of the oversight body in discharging its oversight responsibilities. | **Criterion:** The performance of the oversight body in discharging its oversight responsibilities is assessed periodically.<br>▪ The collective performance of the oversight body is assessed periodically.<br>▪ The oversight body complies with the department's values and ethical requirements.<br>▪ The oversight body holds a sufficient number of meetings each year to fulfill its roles and responsibilities.<br>▪ The oversight body keeps adequate meeting minutes and supporting documentation.<br>▪ The oversight body works well as a team and has effective decision-making processes in place. |

Source: These criteria and sub-criteria have been modified from the CCOLA Governance Study Group's *Crown Agency Governance: Audit Objectives & Criteria* and from the Office of the Auditor General of Canada's *Recommended General Criteria & Sub-Criteria* (for special examinations of Crown corporations).

## Conducting the Examination Phase


During the examination phase of a performance audit, audit teams must conduct procedures that will yield sufficient appropriate evidence to:

- determine whether audit criteria are met,
- conclude on audit objectives, and
- document and support these conclusions.

Audit conclusions can be based on one or more types of evidence, including:

- **Documentary evidence**—file and document reviews, correspondence, databases, performance reports, studies, previous audits, and so on
- **Testimonial evidence**—interviews, focus groups, management assertions
- **Physical evidence**—personal observations, inspections, walkabouts
- **Analytical evidence**—calculations, benchmarking, surveys, statistical analysis, data mining, and so on

**Table 14** provides specific examples of evidence in each category. Each type of evidence can be useful in an audit of oversight but, in practice, documentary and testimonial evidence tend to constitute the main sources of evidence for audits that focus on the roles and responsibilities of oversight bodies.

## Table 14 – Examples of Evidence Sources for Audits of Oversight

| Documentary |
|---|
| ▪ Minutes of board meetings and committee meetings, records of decisions, agendas, board attendance records<br>▪ Information packages prepared by management for board and committee meetings<br>▪ Committee debriefs to boards of directors<br>▪ Legal mandates, charters, terms of reference, bylaws, board policies, code of ethics<br>▪ Strategic plans<br>▪ Board-approved delegated authorities<br>▪ Correspondence with government officials, correspondence between board and management<br>▪ Training material prepared for board members<br>▪ Board profile, skills matrix, succession plans<br>▪ Board self-assessments and surveys<br>▪ Performance reports<br>▪ Report cards, monitoring reports, risk management reports<br>▪ Internal and external audit reports, evaluation reports, investigation reports, inspection reports, independent reports by third parties (think tanks, non-profit organizations, and so on)<br>▪ Major initiative business case, including baseline data and expected benefits, and related timelines and targets. |
| **Testimonial** |
| ▪ Interviews with chair of the board, board members, committee members, and senior management<br>▪ Assertions (written testimony) by board members or senior management<br>▪ Interviews with the minister or other elected officials<br>▪ Interviews with stakeholders |
| **Physical** |
| ▪ Observing board meetings<br>▪ Observing committee meetings relevant to audit purpose |
| **Analytical** |
| ▪ Benchmarking against best practices or against similar organizations/major initiatives<br>▪ Surveys (if auditing multiple organizations) |

Using documentary and testimonial evidence to support audit observations on oversight and to reach an audit level of assurance is sometimes relatively straightforward. However, when it comes to questions related to an oversight body's effectiveness or dynamics, there may be limited documentary evidence available and obtaining sufficient and appropriate evidence may therefore represent a challenge.

The remainder of this section briefly discusses the value, limitations, and potential challenges of each type of evidence that can be used to support conclusions in an audit of oversight. These reflect in large part the experience of practitioners who have audited oversight. Auditing and assurance standards and associated guidance materials may also be consulted by auditors for additional information.

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### Documentary Evidence

Documentary evidence is obtained from the audited organization or from third parties, in hard copy or in electronic format. Documentary evidence can include documents prepared by an organization for its oversight body, documents prepared by the oversight body for its own use, and legal documents that set the organization's operational context.

Obtaining adequate documentary evidence during an audit of oversight may be challenging for a number of reasons:

- Some oversight processes may be informal and/or undocumented ("soft controls") but nonetheless real.
- Some organizations nowadays put less and less information in their board minutes, limiting the usefulness of this source of evidence.
- Management may be seeking to interpose itself between auditors and board members, controlling the access to documentation.
- It may be impossible for auditors to obtain documentation about what was discussed during *in camera* meetings (when no record is kept).

To work around these challenges, auditors may need to conduct more interviews to obtain additional details on the nature and results of discussions held during oversight body meetings, and to document informal controls. Auditors may also need to clearly assert their access to information rights as provided in their office's mandate.

In addition, auditors may face situations where minutes of oversight meetings constitute their main source of documentary evidence for an audit observation. This may be problematic since minutes are considered secondary evidence and it may be difficult to demonstrate that there are sufficient controls in place to ensure that the minutes are reliable. In such a case, to avoid overreliance on minutes, the documentary evidence can be supported by testimonial evidence of some kind (interviews or written assertions). When there is a public version of the minutes and a more complete, internal version, it is suggested that auditors use the internal version.

### Testimonial Evidence

Testimonial evidence is obtained by conducting interviews, focus groups, surveys, or written assertions. Testimonial evidence is particularly useful in audits of oversight to document the less tangible aspects of the oversight environment: soft controls, organizational culture, leadership, and oversight body dynamics.

Testimonial evidence is often very useful to:

- confirm information obtained from other sources of evidence (thus strengthening the support for audit observations and conclusions),
- confirm the absence of something that was expected to exist,
- place documentary evidence in its proper context, and
- open new leads in an audit and identify further sources of evidence.

When auditing boards of directors or other oversight bodies, notes of interviews with oversight body members may constitute an important source of evidence. Auditors can use the notes as support for their observations, but should avoid putting too much reliance on interviews alone. Whenever possible, documentary, physical, or analytical evidence should also be obtained to support key observations.

**Special considerations for interviews with board members**

Conducting interviews with only one director or governor at a time is key to creating a safe environment. Using focus group or group interviews would likely not provide complete information for audit teams since directors and governors might not feel comfortable enough in such settings to express some of their views on the effectiveness of the oversight in the organization they govern. Having an auditor with a seniority level matching the interviewee's conduct the interview is another way to foster a climate of trust.

The experience of auditors suggests that, when planning audit procedures for examining a board of directors or a governing council, auditors should consider planning sufficient time and resources to interview all current directors or governors, as well as previous ones who were active during the period covered by the audit. Limiting the interviews to the chair and key members of a board or a council creates a risk that auditors may remain unaware of significant facts. Contradictory views and different perspectives can often be obtained from the "backbencher" members of boards and councils. By interviewing all directors or governors, auditors can ensure that they obtain and consider as many points of view as possible and so develop a full understanding of the dynamics of a board or council. However, when time and resources are limited, auditors may not be able to interview all directors; in such situations, they will need to carefully consider which directors to interview.

One final aspect to consider when planning interviews with directors or governors is their timing. It is generally better for auditors not to interview board or council members before they interview management and develop a good understanding of the risks and issues facing the audited organization. Once this is done, directors or governors can be interviewed. This way, auditors will be in a position to assess whether directors or governors are aware of the main issues facing the organization and what they are doing to monitor and resolve them. Since auditors may often have only one chance to interview individual directors, it is in their interest to carefully consider the best moment to do so.

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### Physical Evidence

In audits of oversight bodies, the principal means of gathering physical evidence is to observe board or committee meetings.

There are benefits to attending these meetings in person (upon request). Doing so enables auditors to observe board or committee dynamics directly and so obtain a better understanding of context and situations than would be possible by simply reviewing meeting minutes after the fact. This is especially relevant with *in camera* meetings for which management cannot provide minutes.

However, from a practical standpoint, this kind of evidence is unlikely to be relied on frequently, for different reasons. First, board and committee meetings only occur a few times a year and auditors may have limited occasions to attend these meetings during the audit. Second, what is observed at one meeting may not represent what usually takes place at the meetings. This is especially true if the behaviour of the directors or governors changes because of the auditors' presence.

For these reasons, observing board or committee meetings may be better considered as a source of knowledge of business information than as a source of evidence to be used to support audit observations.

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## Analytical Evidence

Many different procedures can be used to generate analytical evidence in support of audit observations on oversight. Some can be relatively simple, like reviewing the minutes of board meetings over a precise period of time in order to determine whether meetings are held regularly, whether directors have a good track record of attending the meetings and what topics were discussed by the board. Other procedures are more complex and will often require the assistance of specialists, like surveys and benchmarking exercises. This section provides information on surveys and benchmarking.

### Surveys

Conducting surveys is a useful audit procedure when the scope of an audit of oversight is large, covering multiple organizations or a whole sector (health or education, for example). Surveys enable auditors to collect specific, structured information from a well-defined population.

In audits of oversight, surveys can be used to obtain information on the policies, systems, and practices in place in different organizations. They can also be used to obtain opinions on oversight body dynamics or on the effectiveness of specific oversight practices and functions.

While surveys can be useful, auditors should note that they are qualitative assessments (especially surveys of opinions) and are not generally sufficient on their own as audit evidence. Indeed, in its 2013 document *Crown Agency Governance – Obtaining Audit Evidence: Challenges,* the CCOLA Governance Study Group considered that opinion surveys do not generally provide audit-level assurance on a board's performance, nor on the quality of its oversight. However, it is possible to use data collected through a survey in combination with other types of evidence to provide audit-level assurance on specific audit observations. Also, survey data can be used as the basis of a non-assurance report (see, for example, British Columbia's 2009 OAG report on information use by boards of public sector organizations and Manitoba's 2009 OAG study on board governance in Crown organizations).

Finally, auditors need to be aware that surveys are complex procedures that require much thought, time, resources, and expertise. Developing and conducting surveys requires specialized knowledge and skills. For this reason, auditors are encouraged to consult with an internal specialist or an external expert before proceeding with a survey as part of the audit of oversight.

### Benchmarking

Benchmarking is a method for comparing performance, systems, or processes across and between organizations, across or between countries. In audits of oversight, benchmarking can be used for three purposes:

1. to identify best practices that will be used as audit criteria,
2. to assess the design of oversight structures and systems and/or the results and effectiveness of oversight bodies compared with those of other organizations or with recognized best practices, and
3. to identify best practices that will constitute the foundation for audit recommendations.

The principal advantage of benchmarking is that it provides an objective basis from which to derive audit observations and conclusions. When properly conducted, benchmarking can allow auditors to reach conclusions on the structures and systems of an organization's oversight bodies and on their relative effectiveness compared with best practices or with similar organizations in a sector of activity.

However, conducting and documenting the results of a benchmarking exercise can be time consuming and challenging, especially when authoritative sources of best practices are not readily available.

Benchmarking the design of oversight structures and systems will generally be easier to do than benchmarking their effectiveness. Information on mandates, governance structures, policies, and practices can readily be obtained by conducting a survey of similar organizations and by collecting documentary evidence available in the public domain or upon request. Public organizations will often be willing to provide information on the design of oversight structures and systems. Obtaining reliable information on the results and effectiveness of oversight bodies and their practices will usually be more difficult, especially when there are significant deficiencies that selected organizations would rather not bring to the attention of auditors.

Beyond obtaining sufficient information, auditors who want to use benchmarking as a source of evidence must ensure that they are making valid comparisons. They should do the following:

- Compare organizations that operate in the same sector of activity and that share significant operational characteristics. In general, comparing public sector organizations with private sector ones will not be appropriate because of the very different goals pursued by each type of organization.
- Use equally reliable data for all the organizations covered by the analysis. Using only annual reports and website information is insufficient to compare effectiveness unless the reliability of this information is assessed by the auditors.
- Close all information gaps and clear all uncertainties by obtaining documentary or testimonial evidence from selected organizations.

Finally, before embarking on a benchmarking analysis, auditors are advised to consult with the audited organization's management and with subject experts to discuss which organizations (or countries) would constitute acceptable comparators. It is preferable to obtain management's agreement with the methodology used, but auditors can expect to run into arguments that the audited organization has unique challenges and cannot fairly be compared with its peers. In such situations, audit teams will need to exercise their professional judgment and decide whether or not to proceed with a benchmarking analysis.

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## Reporting the Results of an Audit of Oversight


During the reporting phase of a performance audit, auditors produce a report that presents their audit observations and conclusions. Audit reports vary considerably in scope and nature. In addition, the formats and writing styles of performance audit reports are specific to individual audit offices. As a result, there is no standard way to present audit findings.

However, some common principles and good practices can be applied by performance auditors to present their audit findings and conclusions more effectively. This section of the Practice Guide discusses some principles and good practices applicable to audits of oversight, but avoids specific recommendations about format and writing styles.

### Setting the Context

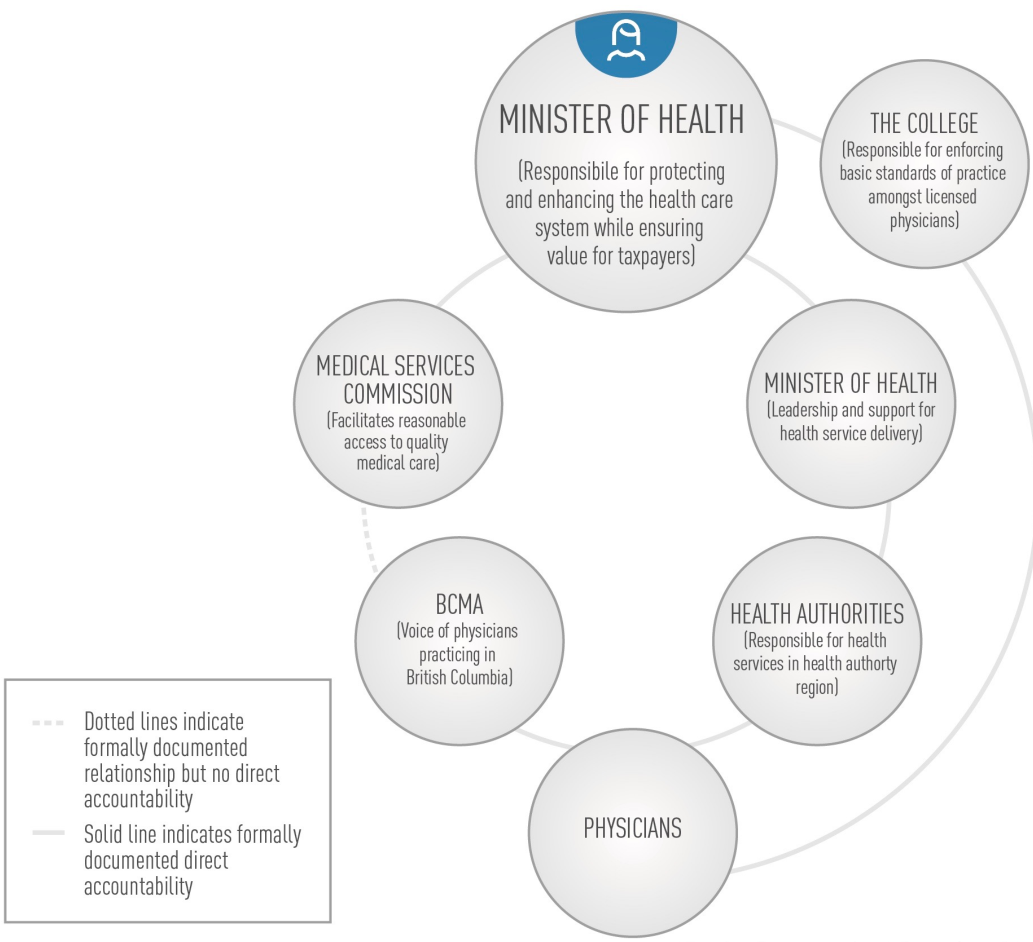
When writing the introduction to an audit report on oversight, auditors should clearly state why they carried out the audit and explain why oversight is important to the success of the selected organization, program, or project. Doing so will provide an answer to the "so what?" question that readers might pose and will let the readers know why they should care about the audit topic.

The front end of the report should also provide sufficient context on the organization, program, or project being audited. In particular, auditors should clearly:

- present the roles and responsibilities of the relevant oversight bodies and functions;
- distinguish the responsibilities of management from those of oversight bodies; and
- explain the key accountability relationships in the organization, program, or project.

Using organizational charts and flow diagrams can effectively present this information without using too many words. **Figure 13** provides an example from the health sector in British Columbia.

## Figure 13 – Example of a Flowchart Used to Illustrate Oversight Responsibilities and Accountability Relationships




Source: Adapted from *Oversight of Physician Services*, Office of the Auditor General of British Columbia (2014).

### Audit Observations

In reporting audit observations, it is common practice not to name the senior officials responsible for oversight, but to simply refer to the position they held at the time (for example, "the chair of the board" or "the Minister"). Auditors should be particularly cautious when the findings clearly point to the behaviour of a specific individual, as any misrepresentation of the facts could result in litigation by that individual. In cases where auditors feel that the actions of a specific individual should be reported, they can use a management letter to present their observations to the relevant organization.

Auditors can also address a management letter to the audited organization when they have more findings than they can communicate in a single report or have findings that are not significant enough to be brought to the attention of their legislature but that should nonetheless be addressed.

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### Recommendations

Drafting effective recommendations is a challenging task that requires much thought, discussion, and professional judgment. When drafting a recommendation, auditors can ask themselves the following questions:

- Is the recommendation addressed to the right organization (that is, the one that can actually implement it and make change happen)?
- Should the recommendations be directed to the oversight body or to the organization overall?
- Is the recommendation aimed at the root cause of the issue or at its symptoms? (See our discussion paper on Root Cause Analysis for guidance on this topic.)
- Does the recommendation clearly identify the risk(s) being addressed?
- Is the recommendation consistent with the audit observations?
- What is the cost and feasibility of implementing the proposed action? Are there alternative courses of remedial actions that would be easier to implement or are more affordable?
- What would be the impact on results, both positive and negative, if the recommendation were adopted?

Furthermore, auditors can inform their decisions on audit recommendations by seeking the audited organization’s views on the actions that would be necessary to correct the identified oversight deficiencies. By discussing audit recommendations with audited organizations before the completion of audit reports, auditors can increase the likelihood that their recommendations will be implemented and will lead to positive change.

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# Glossary

**Accountability** – The obligation of an individual, a group, or an organization to answer for a responsibility that has been conferred. This usually entails reporting on performance, explaining any variance from agreed expectations, and taking appropriate corrective actions.

**Agency, Board or Authority** – A public sector organization that:

- is established by government, but is not part of a ministry;
- is accountable to the government; and
- was assigned or delegated authority and responsibility by the government, or otherwise has statutory authority and responsibility to perform a public function or service.

**Auditability** – The ability to carry out an audit in accordance with professional standards and internal audit policies. Although some areas may be significant, they may not be auditable for the following reasons:

- the audit team does not have or cannot acquire the required expertise,
- the selected area is undergoing significant and fundamental change,
- suitable criteria or approaches are not available to assess performance, or
- the information or evidence required is not available or cannot be obtained efficiently.

**Auditee** – The organization whose performance is being audited.

**Audit conclusion** – An informed judgment made by an auditor based on sufficient and appropriate audit evidence.

**Audit focus** – The breadth and depth of an audit, the risk areas, and the issues selected. Because different audit offices use the term "audit scope" in different ways, the Practice Guide avoids this word and instead uses "audit focus" to refer to the depth and breadth of an audit.

**Audit observation** – The outcome of an objective evaluation of audit evidence against selected audit criteria.

**Audit program** – A detailed outline of the audit work to be undertaken during the audit examination phase to gather sufficient and appropriate evidence. Each audit activity outlined in the program includes the applicable criteria to be used and the audit steps, tasks, resources, and time required to complete the work.

**Audit recommendation** – A measurable statement for corrective action made by the auditor and addressed to the audited organization. Recommendations must address the causes of deficiencies identified in audit reports.

**Control –** Any action taken by management, a board, or other parties to manage risk and increase the likelihood that an organization's objectives will be achieved.

**Due diligence** – What occurs when, in support of key decisions and related management activities, an organization has:

- clarified rules, roles, and responsibilities;
- performed and documented analyses (of benefits and risks, operational requirements, options, and costs);
- consulted with other organizations; and
- obtained the necessary approvals.

**Governance** – The structures, systems, and practices an organization has in place to:

- assign decision-making authorities, define how decisions are to be made, and establish the organization's strategic direction;
- oversee the delivery of its services and the implementation of its policies, plans, programs, and projects; and
- report on its performance in achieving intended results and use performance information to drive ongoing improvements and corrective actions.

**Outcome** – The consequences of a policy, program, initiative, or activity. An intended outcome is the end result that is being sought by an organization, a policy, a program, or an initiative.

**Oversight** – The responsibility to review, monitor, and supervise public sector organizations and their policies, plans, programs, and projects, to ensure that they are achieving expected results and are in compliance with applicable policies, laws, regulations, and ethical standards. Oversight is a critical governance function performed by senior management, boards of directors, committees, or other internal or external bodies.

**Oversight body** – A group of people with a common oversight purpose acting as an organized unit.

**Performance audit** – An independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources in a given sector of activity.

**Risk –** An event or action that may adversely affect an organization's ability to achieve its objectives. Assessing risk involves considering the probability (or likelihood) of the event occurring and the potential impact of that event.

**Significance** – The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of third parties, and the impact of the matter to the audited program or activity.

**Value-for-money audit** – An assessment of whether an organization has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it. Value for money is often described in terms of the "3 Es": economy, efficiency, and effectiveness.

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