

The Impact of the Work of Legislative Auditors



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The role of auditor general was introduced in Canada in 1878, and tracing the history of legislative auditor offices across Canada will take you on a journey of discovery. The role has evolved from keeper of the books to today's independent source of objective evidence to hold governments accountable for all results, not just financial.

Today's legislative auditors have added performance auditing to the more traditional financial statement audit role. Topics are vast, including everything from the adequacy of information technology controls to grizzly bear management in British Columbia.

Legislative Performance Auditing – Broad Scope, Wide Perspective

As an example of the broad scope and complexity of performance audits, from 2015 to 2018, provincial auditors general partnered with the federal Commissioner of the Environment and Sustainable Development, through the Office of the Auditor General of Canada, to undertake audits of climate change adaptation and mitigation. Separate audit reports were issued and culminated in a collaborative report on perspectives on climate change action in Canada. While it is only recently that attention is being paid to ESG (environmental, social, and corporate governance) audits in the private sector, the public sector has been looking at aspects of ESG for many years.

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In fact, legislative performance auditing has been conducted for more than 40 years in Canada. Performance auditing was once called “value-for-money auditing,” and was designed to look at the economy, efficiency and effectiveness of government spending. In 1977, the Auditor General Act added performance auditing to the mandate of the Office of the Auditor General in Canada. Over the following years, a similar mandate was granted to provincial auditors general and to the auditors general of several large municipalities including Montreal and Toronto. (The City of Vancouver hired its first auditor general in 2021.) And now the original 3 Es – economy, efficiency and effectiveness – often find themselves beside additional Es, being environment, ethics, equality and equity.

While performance audits often catch the media's attention, be careful to read the reports themselves rather than rely on the headlines. For example, the word “slams” appears far too often in the headlines, yet I was unable to find the word in any of the related audit reports. Audit reports use carefully chosen language to state the facts and avoid sensationalizing the

situation found. While it was reported that “the auditor general slams government for poor grizzly bear management,” the 73-page report concluded that “government does not have an adequate management framework for grizzly bears.”

Today, all provincial legislative audit offices publish performance audit reports at least once a year, as do a number of municipal audit offices. The trend of expanding public sector performance audit activities that began four decades ago is continuing. For example, a law adopted in Quebec in 2018 expanded the mandate of the Quebec Municipal Commission to include responsibilities for conducting performance audits in municipalities with populations between 10,000 and 100,000. Globally, performance audits are conducted all around the world, although they are in various stages of maturity.

The Meaning of “Audit”

The word “audit” is widely misunderstood by members of the public and even legislators. In part, this is due to confusion between financial and performance auditing. Traditional financial statement audits are still part of the mandate for federal and provincial auditor general offices. Most municipalities hire public-sector accounting firms for their financial statement audits, although the Auditor General for the City of Montreal issues a financial statement opinion jointly with an external auditor.

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But the misunderstanding is caused by more than simply the difference between financial statement audits and performance audits. Primarily, it is caused by the use of the word “audit” in conversation without context. There is a big difference in everything from the design, to the standards applied, to the report produced, depending on the type of audit. Google the word audit and you will find websites describing everything from three types of audits (external, internal and tax audits) to descriptions of 15 types of audits that add financial, operational, compliance, information system, payroll, pay, integrated, forensic, statutory, value for money, agreed-upon procedures, as well as special audits, to the list. Although Canada’s legislative auditors do more than financial statement and performance audits, those two forms of audit are by far the most common.

It is also important to understand where audit reports fit within the accountability triangle. As the following diagram shows, the role of the auditor is only one of the three major elements in the triangle. The two other roles are management, which is the responsibility of government, and oversight. Oversight is conducted by a Public Accounts Committee at the federal, provincial and territorial levels of government and by an Audit Committee or full City Council in municipalities.



Advancing Public Sector Accountability

The Canadian Audit and Accountability Foundation (CAAF) has been working for over 40 years to advance public sector accountability. CAAF works closely with both auditors and oversight committees to share knowledge and contribute to capacity building. Recently, CAAF joined the Canadian Council of Legislative Auditors and the Canadian Council of Public Accounts Committees in a meeting in Ottawa to discuss matters of mutual interest. The conference included a variety of business sessions on topics such as: Putting Pressure on Recurring Issues: What are the root causes and what can be done about them?; Accountability and Political Change; Maintaining the Relevance of the Auditor General's Office; and Studying the Public Accounts. Much of the conversation seeks to explore ways to increase the impact of legislative auditors' work.

CAAF issued a discussion paper in 2019 on *The Impact of Performance Audits – Defining, Measuring, and Reporting Impact*. At that time, CAAF estimated that legislative audit institutions in Canada have a combined annual budget of more than \$200 million, of which more than \$75 million is dedicated to performance audit activities. From the level of spending and the trend of expanding performance audit activities, the discussion paper concluded that there is continuing interest in performance audit activities in Canada's public sector and that significant sums of taxpayers' money will continue to be spent on these activities for the foreseeable future. The paper also concluded that it is fair for governments, legislators, auditors, and citizens in general to ask what value is obtained from this investment and whether performance audits generate positive results.

This article will now summarize the discussion paper. Refer to the [full document](#) for further information about each of the highlights below.

CAAF's discussion paper explores three main questions:

1. What is meant exactly by “impact”?
2. How can impact be measured and reported?
3. How can auditors increase the impact of their performance audits?

The discussion paper drew on various sources of information, including academic papers, guidance documents, annual reports, websites and news reports, as well as interviews with senior performance auditors. The research conducted to support the paper was based on a review of Canadian and international academic literature published over the previous 25 years, as well as a review of annual reports from 2017 and 2018 published by audit institutions in Canada and other countries. The authors conducted semi-structured interviews with 34 senior representatives of municipal, provincial, and federal audit institutions in Canada, the United Kingdom and the United States.

One study found that audit teams that demonstrated openness and fluid communications with auditees likely strengthened the impact of their audits.

After researching these three questions, the paper includes details and highlights answers to each area as follows:

1. What Kind of Impact?

Value and impact:

- a. Audit institutions have inherent value because they foster good governance, accountability, transparency, and trust in public administrations.
- b. In addition to their role as accountability officers, many audit institutions see themselves as agents of change and seek to “have an impact.”
- c. In an auditing context, “impact” means a change in the public service or society resulting from a performance audit.

Impact in theory and practice:

- a. Measuring the wider impact that audit institutions have through their performance audits is inherently difficult because it is challenging to separate their contributions to specific outcomes from the contributions of other stakeholders.
- b. For this reason, audit institutions tend to measure their impact at the level of individual audits rather than at the level of the practice as a whole. This means that much focus is placed on monitoring the implementation of audit recommendations.
- c. Audits can potentially have negative effects, but few studies have examined this question to determine whether this happens in practice.
- d. Multiple internal and external factors can influence the impact of performance audits.

The views of Canadian performance auditors on impact:

- a. For a majority of interviewees, making a difference is an important objective of their work.
- b. All auditors interviewed acknowledged that audits often put the spotlight on important issues and create an opportunity for debate to take place and change to happen.
- c. Auditors indicated that it is often difficult to measure and document audit impact.
- d. Interviewees recognized that leveraging the media could increase the impact of an audit but that it is not by any means an absolute requirement for having an impact.

The paper includes a discussion on the factors that can influence the impact of performance audits. The following table presents a simplified model in which factors that can influence the impact of a performance audit are divided in two categories: internal factors, which relate to the audit process and on which auditors have much control, and external factors, which are characteristics of the social and political environment in which auditors work and over which they have only limited influence or no influence at all.

Factors That Can Influence the Impact of a Performance Audit

Internal Factors (Audit Process)	External Factors (Environment)
<ul style="list-style-type: none"> ■ Audit topic selection ■ Reputation and credibility of the office ■ Relationships with the auditees ■ Expertise of the auditors ■ Quality of the audit reports ■ Relevance of the audit recommendations ■ Efforts to disseminate the audit findings ■ Follow-up mechanisms 	<ul style="list-style-type: none"> ■ Actions and expectations of Parliamentarians ■ Media and stakeholder engagement ■ Willingness to make changes within audited organizations; tone at the top ■ Political will ■ Timing of the audit ■ Timing of policy reforms ■ Other events competing for public attention ■ Expectations of citizens for change

Several studies have particularly highlighted the importance of the relationship between auditors and auditees. According to Jane Etverk, *Measuring Performance Audit Effectiveness: The Case of Estonia* (2002), the quality of this relationship is crucial in determining whether the audited body will accept an audit's recommendations. Danielle Morin, in *Measuring the impact of value-for-money audits: a model for surveying audited managers* (2004), found that audit teams that demonstrated openness and fluid communications with auditees likely strengthened the impact of their audits. Conversely, if auditors behaved like inquisitors, there was greater risk that their efforts would yield no result. [Katrien Weets's Impact at local government level: a multiple case study \(2011\)](#) similarly found that a lack of empathy for the auditees could be detrimental to an audit team's efforts to drive change through its audit work.

One of my favourite audit books was written in 1981 by Sonja Sinclair who describes the role of the federal Office of the Auditor General. Its title stood the test of time and was a message I often repeated to all staff and reminded myself of: *Cordial but not Cozy: A History of the Office of the Auditor General*. Along with the need to have an open, empathetic relationship between the auditee and the auditor comes the responsibility of remaining impartial, unbiased, and independent.

Another important element to note is the role of the Public Accounts Committees (in federal and provincial jurisdictions) and the Audit Committee in municipalities (sometimes an oversight role exercised by City Council as a whole). When these committees adopt good practices and review performance audit reports in a non-partisan manner, they can significantly increase the impact of audits by holding government to account for implementing audit recommendations.

2. How to Measure and Report Impact

How audit institutions measure and report their impact:

- a. Audit institutions can use a range of performance indicators to measure the impact of performance audits, including statistics about recommendations and estimates of savings or additional revenues resulting from the audits.
- b. The common performance indicators used to measure quantitative impact vary in terms of their usefulness or intrinsic value.
- c. Audit offices can also report on the impact of performance audits by providing qualitative information such as case studies and examples of the concrete impact of audits on audited programs.

How Canadian audit institutions report their impact:

- a. The performance indicator most commonly used by Canadian audit institutions is the percentage of audit recommendations implemented.
- b. There are limited instances of reporting on the financial impact of performance audits. Conflicting priorities, resource considerations and availability and quality of information limit audit institutions' capacity to report on financial impact.
- c. Over time, net progress has been made by Canadian audit institutions in reporting on the impact of their performance audits, but efforts in this direction have been uneven.

How to improve the reporting of audit impact:

- a. There are many strategies to improve the reporting of audit impact. In fact, these strategies are most effective when they are used together.
- b. Increasing transparency is the cornerstone of good performance reporting. Effective use of technology and balanced reporting can magnify the transparency of an audit office.
- c. Improving information presentation is a recognized approach to ensure that impacts are well communicated. Many good practices could be replicated.
- d. Measuring financial impact is one way to demonstrate vividly the impact of performance audits. Although fraught with challenges, it has been done successfully by a few offices.

- e. Using narratives to report qualitative information is another effective way to broaden and improve reporting on audit impact.

The role of the oversight committee cannot be emphasized enough in making sure that audit reports result in positive impacts.

Based on research, CAAF proposed 10 good practices to help audit institutions better demonstrate the value and impact of performance audits. While it may not be possible for all offices to adopt all the practices in the table below, they can consider which ones would enable them to have a balanced approach. Such an approach should tend toward a mix of quantitative and qualitative as well as financial and non-financial information, with both aggregate statistics and illustrative examples.

Ten Good Practices That Audit Institutions Can Adopt to Better Demonstrate Their Value and Impact

Practices
<ol style="list-style-type: none">1. State the immediate, intermediate, and ultimate outcomes that are expected to result from the office's performance audit practice as a whole.2. Set value-added objectives for each performance audit during the planning phase.3. When possible, ensure that pre-report impacts are captured either in the audit report or in the audited organization's response to the audit recommendations.4. Report annually on the percentage of implemented audit recommendations, using a consistent approach over time. Also provide a breakdown of this information at the departmental level.5. Report on recommendation implementation trends over the years and explain any variance observed.6. Increase transparency by making a searchable database of recommendations and their implementation status available online. Specify whether the information in the database has been reviewed or audited by the audit office.7. Use case studies and narratives based on qualitative information to report notable audit impacts.8. Where feasible and relevant, report the financial impact of performance audits.9. Report on the extent to which auditees and the members of Public Accounts Committees see value in performance audits by disclosing the results of post-audit surveys.10. Conduct surveys of audit impact several years after the completion of selected audits and report the findings of these surveys. Where feasible, link the findings back to the office's expected outcomes for performance audits.

3. How to Increase Impact

The actions that Canadian audit institutions are taking to increase their impact:

- a. Increasing transparency of long-term audit plans and engaging stakeholders in their preparation can make them more relevant.
- b. Establishing and maintaining good relationships between auditors and auditees can contribute to more impactful audits.
- c. Reaching wider audiences can be achieved by leveraging social media, producing audit reports that are easier to read and understand and, when possible and appropriate, publishing them more frequently.
- d. Conducting more rigorous and frequent follow-ups increases the likelihood that audit recommendations will be fully implemented and lead to positive changes.

The role of the oversight committee cannot be emphasized enough in making sure that audit reports result in positive impacts.

I will leave you with the following quote – which you may be surprised to read was at the start of an audit report issued in 1993 by the Auditor General of British Columbia – perhaps it captures the challenge all auditors face in getting oversight committees, the media and the public to read their reports. But perhaps it is also an enticement for them to do so.

“If you think ... that anything like a romance is preparing for you, reader, you were never more mistake. Do you anticipate sentiment, and poetry, and reverie? Do you expect passion, and stimulus, and melodrama? Calm your expectations, reduce them to a lowly standard. Something real, cool and solid lies before you, something unromantic as Monday morning, when all who have work wake with the consciousness that they must rise and betake themselves thereto.” Charlotte Brontë

