

## Understanding the Audit

### Types of Evaluation & Audits

The following section provides a brief description of the types of audit and evaluation services the ministry may ask the Internal Audit and Advisory Services (IAAS) Branch to conduct of an agency.

**Financial Statement Audits:** An assessment to determine whether the financial statements and records are in order. The agency should be managing its finances and financial records according to generally accepted accounting principles. The agency's external auditors usually perform these audits.

**Compliance Audits:** An audit of the agency's compliance with the terms of the contract and the attached schedules and any other standards, laws and regulations that may apply.

**Investigative Audits:** An assessment of the agency's records in response to a complaint or concern. The agency's financial, administrative and/or operational records may be assessed. To ensure the need for an audit is properly documented, complaints and concerns of the person making the audit request must be recorded.

**Comprehensive Audits:** A study aimed at assessing value for money in the agency's program delivery. The effectiveness, efficiency and economy with which the agency delivers its service will be examined. A comprehensive audit can include an assessment of financial, management, and operational controls.

### Specified Audit Procedures

**Service Evaluation:** A performance evaluation of the contracted agency is an assessment of the quality of services provided. The evaluation assesses whether the contracted agency is providing the services intended in the contract. The assessment also examines whether the program is effectively and efficiently designed and delivered.

Peer teams, provincial evaluators, internal auditors of the Province, or independent contracted evaluators can conduct service evaluations. The evaluation criteria will be shared with the contracted agency and will be outlined within the Component Schedule. Service evaluations may be conducted as part of a comprehensive audit.

### **Typical Agency Audits**

The typical agency audit usually combines aspects of a financial audit and a compliance audit. Sometimes they will also involve aspects of an investigative audit. The financial portion of these audits will look at:

- the accuracy and completeness of the financial statements;
- the agency's internal financial information and reports;
- the external reports prepared for the ministry;
- the agency's compliance with the financial and operational guidelines developed under contract reform; and
- the agency's compliance with contract and/or licensing requirements such as staffing or reporting.

### **Internal Audit and Advisory Services**

#### **Who is Internal Audit and Advisory Services (IAAS)?**

IAAS is the internal auditor for the Government of British Columbia and operates as each ministry's internal audit group. It is part of the Office of the Comptroller General (OCG) within the Ministry of Finance. Reporting to the Comptroller General allows IAAS to remain independent and objective in its work and reporting.

IAAS performs audits of contracted agencies and MCFD operations. The IAAS Branch's goal is to add value to government operations by providing assurance and improving the operations of audited organizations. For more information, visit the Branch's website. [www.fin.gov.bc.ca/ocg/ias/ias.htm](http://www.fin.gov.bc.ca/ocg/ias/ias.htm)

#### **Who Pays for the Audit?**

MCFD will pay the cost of all internal audits, through its Ministry Service Agreement with IAAS.

### **What Auditing Standards Does Internal Audit Follow?**

IAAS is required to perform internal audits in accordance with Generally Accepted Auditing Standards and Provincial Internal Auditor Standards. The Financial Management Operating Policy, Chapter 13 outlines their mandate and standards. For more information, please refer to: [Financial Management Operating Policy](#)

### **Why does MCFD request Internal Audits of Agencies?**

**There are many reasons an agency may be selected by the ministry for an audit by the IAAS Branch.**

Some agencies are selected at random as part of the annual audit plan;

Regional staff may have concerns with the agency; or

The agency requests the audit.

### **Agency audits can be done for any of a number of purposes, including:**

- Evaluating compliance with contracts, policies, standards, guidelines and legislation;
- Assessing the accuracy and reliability of the agency's reports to the ministry; and
- Looking into specific issues raised by ministry staff or others.

### **Agency Expectations**

The ministry's authority to audit an agency is specified in the agency-ministry contracts. Cooperation with the audit procedures reflects the good working relationships with the ministry. Cooperation also acknowledges that the ministry needs to be accountable to taxpayers for contract expenditures.

The Ministry's right to audit an agency includes:

- inspecting the premises and any equipment and inspecting and copying any documents; and
- conducting audits of the Contractor.

Agencies should expect to:

- know the reason they are being audited. They should ask their MCFD contract manager or the IAAS Branch staff during the initial planning meeting;
- be informed of the audit process;
- review the Terms of Reference (TOR);
- be informed of the findings and conclusions of the auditors;
- discuss the findings and conclusions at an Exit meeting;
- review the Audit Report.

For more information, please refer to the Internal Audit Process.

### **Are there limits to what the auditors may review?**

The internal auditors are permitted to review and copy all documentation related to contracts with MCFD. However, the auditors should limit the scope of their review to the purpose outlined in the TOR. If the auditors appear to be extending their review beyond the scope of the audit, you can ask how their inquiries relate to the audit intent.

### **What about confidentiality of the agency's records and those of our individual clients?**

Auditors with the IAAS Branch are sworn to maintain confidentiality about ALL information they obtain during an audit.

## **Internal Audit Process**

### **a. Project Planning**

#### **Initial Planning**

Ministry regional staff will advise your agency of an upcoming audit. IAAS will contact you to arrange an initial visit to your business to discuss the purpose, timing, and duration of the audit. The auditors will strive to make the audit as convenient to you as possible, operating quickly and quietly and minimizing use of your staff's time.

The auditors will develop an understanding of your agency by asking what it does, how it operates, and what records are kept, so they can plan the audit. They may ask for copies of recent financial statements, budgets, program income and expense reports, operational statistics or other information.

Following this meeting IAAS will prepare detailed plans and programs. IAAS will also review the results of the agency's external audit reports, service evaluations and comprehensive audits. IAAS will rely on this work, where appropriate, to reduce the extent of testing required.

When the efficiency or effectiveness of the organization is to be assessed, criteria for measuring success or performance will be developed and confirmed with your agency or society.

### **Terms of Reference**

- A period will pass while the auditors plan the audit. During this time, a document called the audit "Terms of Reference (TOR)" will be developed by the auditors. The TOR specify what aspects of your business will be audited and includes:
  - an audit purpose;
  - an audit scope;
  - audit objectives;
  - project timing;
  - audit team composition; and
  - relevant policy and legislation.
- The agency executive and ministry staff will have the opportunity to review and provide comments on the draft TOR.
- The TOR will be signed by IAAS, and the appropriate ministry executive. The TOR will be copied to the Owner or Executive Director of the Agency and the Board Chair, if there is a Board of Directors, to keep the agency fully informed about the audit purpose and process.

Note: Terms of Reference may include the right of the MCFD to post internal audits on the Ministry's Internet site.

## b. Fieldwork

Before the planning is complete, the auditors will contact you to arrange specific timing for the audit. Normally the audit will be done at your administrative office.

During the audit, the auditors will need appropriate working space and access to relevant records and staff. The auditors will usually work the same hours as your staff, to minimize disruption. Audits often take two or three weeks, but can range from one day to over four weeks.

The records the auditors need to look at, and staff they need to talk to will depend upon the purpose of the audit but will be discussed at the planning meeting and throughout the audit. Audit evidence, which supports conclusions, is collected in working paper files.

The auditors practice a policy of no surprises. You will be kept informed of their conclusions as they proceed, and you'll have opportunities to clarify things you may not fully understand. This may not be possible in the event that an investigative audit is being performed.

## c. Exit Meeting

IAAS and the Executive Director of the agency and other agency managers under review normally attend an exit meeting upon completion of the fieldwork.

### **The purpose of this meeting is to:**

- formally present the preliminary findings;
- obtain input into the findings and conclusions; and
- work towards developing solutions.

The auditors will be open to your comments about the findings and conclusions.

An exit meeting will be held with ministry staff to discuss any concerns related to contract management highlighted during the audit.

#### **d. First Draft**

Each audit results in a written audit report. The reports are written to the ministry, and include the purpose and scope of the audit, the auditors' conclusions, and recommendations. The reporting process goes through these steps:

- Within three weeks from the Exit Meeting, the first draft of the audit report is sent out to both your agency and the regional ministry office.
- Both parties are asked to respond to and provide comments on the draft report within three weeks. This provides both parties an opportunity to respond to the draft and verify that it accurately represents the issues discussed at the exit meeting.
- Following a review of the responses, IAAS will amend the draft report, where appropriate.

#### **e. Second Level Draft**

IAAS issues the second draft report (revised as necessary), to the ministry's relevant Assistant Deputy Ministers. They review the ministry's and agency's action plans and incorporate their comments into the combined plan.

A Client Survey is sent to the ministry and the agency executive director. The survey provides IAAS with feedback on service quality, achievement of intended results and input for future improvements.

#### **f. Final Report**

After IAAS receives the completed action plan from the appropriate ministry officials and executive director of the agency, the final report is sent to the Deputy Minister and the Executive Director of the agency.

The final report reflects the actions taken and planned by the ministry and the agency or society.

### **g. Final Report Distribution**

The final report, which incorporates the comments from the action plan, will be distributed. The report will be forwarded to the Executive Director and/or the board of directors of the relevant agency and to the management of the ministry as follows: the Deputy Minister, the relevant Assistant Deputy Minister, the Executive Financial Officer, the relevant Regional Executive Director.

### **h. Post Audit Follow-up**

Approximately 6 to 8 months following the completion of the audit, a follow-up status report is expected. This report will indicate what steps have, or have not been taken toward implementing the recommendations in the final audit report. This report demonstrates that the improvements and corrective actions recommended to management have been implemented.

## **How to Prepare an Audit**

### **Preparation**

- Ask the auditors for an initial list of the documents they will want to examine, and ensure that those documents will be readily available.
- Inform your staff of the audit's purposes and timing, assure them that it's a normal business procedure, and tell them to be relaxed and open with the auditors. Let them know that the auditors are free to interview them and examine documents relevant to the audit purposes. Also advise them that the auditors will minimize use of their time, as much as possible.
- If the audit is to be done at your premises, as is usual, arrange for an appropriate workspace for the auditors for the estimated audit period.

### **How to Maximize Benefits of Being Audited**

Audits CAN be of benefit to an agency being audited. Here's how:

- At no cost to your agency, the auditors will either assure you that the audited operations are functioning appropriately or identify opportunities for improvement.

- Cooperating with the ministry's auditors is a good way to demonstrate to the ministry that your agency is open and trustworthy.
- Audits often identify opportunities for administrative and accounting improvements for the agency.

To maximize such benefits, simply cooperate with the auditors, and be open to consider comments and suggestions they make.

### Website Links

1. Stanford University, Internal Audit Department  
<http://www.stanford.edu/dept/Internal-Audit/docs/guide/>  
A 20 page audit survival guide which includes sections on:
  - Working with auditors
  - Typical questions about audits
  - Questions you may be asked during an audit.
2. Florida Atlantic University - Audit Survival Guide.  
<http://www.fau.edu/admin/oig/survival.php>
3. Internal Audit and Advisory Service  
<http://www.fin.gov.bc.ca/ocg/ias/ias.htm>

### Agency Feedback

#### Client Comments on Agency Audits

##### a. Agency Comments

"We very much appreciated the professionalism and thoroughness of the audit team that was dispatched to our association."

- Executive Director

"We would like to extend our thanks to the auditors for their professionalism, patience and focus throughout the audit process. They were extremely willing to meet and discuss their findings and were very pleasant to deal with. We are very grateful that the auditors were able to provide an objective opinion to the Ministry regarding our financial situation and performance."

- Executive Director

"As the audit progressed, we were reassured that your team were conducting the audit in an unbiased, professional and constructive manner. The team certainly seemed to know how to ask the right questions in order to learn the depth and breadth of the issues they were reviewing. We were pleased with them and were happy to assist them."

- Executive Director

"We would like to commend the Internal Audit Branch on the calibre of the auditors that completed the fieldwork. (They) did a great job of representing your branch and we would like to thank them for the way they completed their work by keeping disruption to a minimum."

-Executive Director

"The process was fair and candid. The results pointed out in general terms that the Society is doing a good job. There are areas where the Society can improve and certainly will use the recommendations in the report."

- Executive Director

"In conclusion, we wish to state that we found your staff's audit to be very professional, thorough and fair. It was a pleasure working with (the auditor) and his assistant."

- Chief Administrative Officer

## **b. Ministry Comments**

"OCG staff were patient and willing to explain and clarify issues arising from the course of the audit"

- Community Living Manager

"We have appreciated being apprised of any developments as the audit proceeded."

- Community Living Manager

"Good example of partnership approach to problem solving in these circumstances."

- Community Living Manager

"There was lots of opportunity to provide input on what the region wanted the auditing group to provide. This was an excellent opportunity for ministry and agency staff to further their working relationship. The ministry did not expect significant findings in the review; however, it was an important step to contract negotiations."

- Regional Manager, Finance and Administration

"Final report not received until November 2000 - this is a bit long although we had seen the drafts before then. The audit staff were professional and knowledgeable. Their review was timely in terms of when it got started. I believe this was a valuable project."

- Regional Manager, Finance and Administration

## **Freedom of Information & Protection of Privacy Act**

British Columbia's Freedom of Information and Protection of Privacy Act (FOIPPA, the Act) has significantly increased access to government reports including internal audit.

This increased access to audit reports can result in more timely and aggressive implementation of recommendations for improvement. However, the Act has also resulted in the potential for the following implications:

- an increase in media attention to audit results;
- the risk that information in released reports and working papers will be misused (e.g. information may be taken out of context) which impacts the credibility of the audit process; and

- a risk that words used by an auditor to document evidence may be interpreted differently by anyone other than the author.

The Act sets out specific circumstances under which a public body may withhold information including:

- Disclosure Harmful to Law Enforcement, section 15
- Information That Will Be Published or Released Within 60 days, section 20
- Disclosure Harmful to Business Interests of a Third Party, section 21
- Disclosure Harmful to Personal Privacy, section 22

For more information, please refer to

[http://www.qp.gov.bc.ca/statreg/stat/F/96165\\_01.htm](http://www.qp.gov.bc.ca/statreg/stat/F/96165_01.htm)

## Frequently Asked Questions

### 1. Why are we being audited?

There are many reasons an agency can be selected for an audit including:

- agencies may be selected at random as part of the annual audit plan. Selection may be based on the extent of funding from MCFD and to ensure regional representation.
- regional staff have concerns with the agency; and
- the agency requests the audit.

### 2. We have an independent audit each year, why do we need another audit? What will the auditors look at?

The independent audit only gives an opinion on whether the financial statements are fairly stated. For many agencies, the external auditors do not test internal controls. The internal audit work may include:

- Testing significant internal controls;
- Verifying number of Full Time Equivalent staff for significant programs;
- Verifying contract deliverables have been met;
- Determining if there is unearned revenue;

- Determining whether administration costs are reasonable;
- Verifying related party transactions, such as rent, are reasonable;
- Investigating complaints;
- Verifying wage lift compensation distribution; and
- Testing the accuracy of financial reports submitted to the ministry.

### **3. Are the auditors MCFD staff? Will they be on MCFD's side?**

The auditors and IAAS are independent of MCFD and are objective. They are not on MCFD or the agency's side. The professional standards that are followed require the auditors to be independent and objective. Many of the findings and recommendations are directed towards the ministry. The auditors may also include independent contractors to IAAS. IAAS obtains permission from the agency being audited prior to using independent contractors.

### **4. What rights do the auditors have?**

The rights are dictated under the contract the agency signs with MCFD. These rights are outlined below:

- The contractor must permit the Province to enter any of the premises the contractor use to provide services at any reasonable time. This includes allowing the province to examine documentation, the premises and equipment located there. (Section 7.03)
- The Province may conduct audits of the Contractor upon reasonable notice to the Contractor and at reasonable times.
- The Contractor must fully cooperate with the Province in the conduct of audits under this section.
- The Province must conduct the audits in accordance with the Audit and Evaluation Protocol (Section 9.03)
- The Contractor must participate in any service evaluation process applicable to the Services, as developed by the Province. These evaluations will be conducted in consultation with the Contractor.
- The contractor will receive reasonable notice from the Province of the evaluation, and the evaluations will be conducted at reasonable times. (Section 9.05)

## **5. How long will the audit take?**

The audit usually takes two to three weeks of fieldwork at the agency's premises. The whole project includes:

- one or two planning meetings with the agency executive to discuss the audit, the approach, and what the auditors will be looking at;
- review of the Terms of Reference by the agency executive;
- two to three weeks of work at the agency's offices;
- one or two exit meetings to discuss the findings and recommendations;
- review of the first draft of the report by the agency executive.

## **6. How much of our staff's time will the auditors take?**

The auditors try as much as possible to limit the disruption to the agency staff. The internal auditors understand that the staff still have to complete their regular duties. The auditors work with the agency executive to select the time period that meets their operational needs, and minimize, as much as possible, the inconvenience to staff.

## **7. Will this audit cost the agency anything?**

No, the agency does not pay for the audit. MCFD pays for the audit through their annual audit budget.

## **8. Are there limits to what the auditors can review?**

The internal auditors are permitted to review and copy all documentation related to contracts with MCFD.

## **9. What about the confidentiality of our clients' personal information?**

Many agency audits do not include reviewing client files. However, some of the audits will need to review these files. All information is kept confidential. The auditors are bound by confidentiality rules both within the Provincial government and their respective accounting bodies.

**10. Who will see the audit report? Do we have input into it?**

The first draft of the report will be reviewed by the agency and MCFD staff. Both parties have input into the report and the comments are included in the final report.

**11. When will the draft report come out?**

The first draft report is usually written and delivered to the agency and Ministry within three weeks of the exit meeting.

**12. Who receives the final report?**

The final report will be distributed to the executive director and/or the board of directors of the relevant agency and to the management of the ministry, including:

- the Deputy Minister;
- the relevant Assistant Deputy Minister;
- the Executive Financial Officer; and
- the relevant Regional Executive Director.

Due to Freedom of Information legislation, final reports can be requested by the public. The reports are vetted and identifying information is removed prior to it being issued.