

Improving Communication Between You and the Auditors

Tips for Ministries on Audits of Performance Measures
and on Section 7500* Reviews of Annual Reports

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Improving Communication Between You and the Auditors: Tips for Ministries on Audits of Performance Measures and on Section 7500 Reviews of Annual Reports

1. Introduction: Working with the Auditors is a Good Thing

As the fiscal year end quickly approaches, so do two other things:

- annual audits of ministry performance measures
- section 7500 reviews of annual reports

By working with the auditors on these review and audits, ministries (also called **you** and **your** in this guide) can:

- a) **Spend less time** giving information to the auditors and answering questions.
- b) **Reduce disruptions** to normal work.
- c) **Obtain valuable feedback** to improve performance reporting.
- d) **Issue a timely, higher-quality annual report.**

This document gives tips on audit planning, communication, and coordination to enhance the audit and review processes. **It's designed for annual report coordinators, senior financial officers, and others who work on annual reports and performance measures.** Readers should also look at the Ministry of Finance Annual Report Standards (the *Standards*), which are updated annually.

2. Who Does What: A Common Goal but Different Roles

Ministries and auditors have a common goal: to efficiently complete work on the annual report. But they play different roles in reaching that goal. **Ministries must prepare a high-quality annual report** under the *Government Accountability Act* and the *Standards*. **Auditors must do three things: express an opinion** on the financial statements, **report on results** of applying specified auditing procedures to performance measures, and **review the annual report** based on section 7500 of the Handbook of the *Canadian Institute of Chartered Accountants*.

3. Before the Auditors Arrive: Pre-audit Planning

Pre-audit planning is critical to ensure both processes—reviews and audits—run smoothly. Make sure you do the following five things:

3.1 Communicate and Coordinate with the Auditors

Good communication between you and the auditors will enhance the processes and allow you to coordinate efforts. The *Standards* have an appendix with suggestions to improve communication and coordination. One key suggestion is to appoint **an audit coordinator**—normally a senior person such as the senior financial officer—to oversee preparation of the annual report. Make sure everyone knows about this person. **The audit coordinator should:**

- a) **Meet with the audit team** before the audit starts to agree on the ground rules and open communication channels.
- b) **Distribute the *Information needs list***—see section 3.3 below—to the staff who prepare the information.
- c) **Discuss priorities with staff** and offer to help solve significant problems.
- d) **Arrange appropriate working space** for the auditors with phone, storage space, secure filing, parking spots, etc. This involves talking to the audit manager about these needs—one to three weeks before the auditors arrive—to ensure everything is ready.
- e) **Ensure the ministry reviews the annual report** for quality before giving it to the audit team.
- f) **Give the audit team the completed annual report** and supporting documents.
- g) **Receive and react to all changes** the audit team suggests.
- h) **Quickly tell the audit team** about all changes to the report.
- i) **Talk with the audit manager** regularly about the progress of the audit to minimize last-minute glitches.
- j) **Give a completed management representation letter** to the audit team.
- k) **Ensure the audit team gets a printer's proof**, also called the *blue line version*, of the annual report.
- l) **Schedule staff** so they're available during the audit.

3.2 Set Timelines

Early in the process, set key dates for preparing the annual report. The *Standards* have guidance on these dates. **Discuss the following things with the auditors and agree on when:**

- a) **You submit the draft annual report to the auditors**. This draft should be a final report that you have already reviewed for quality. You should have draft working papers available to support performance measures in the report.
- b) **The auditors start working** on your performance measures.
- c) **The auditors complete specified auditing procedures** on the performance measures and the **section 7500 review** of the annual report.
- d) **Your management gives a representation letter** on ministry performance measures to the auditors.

- e) **The auditors issue a report** on the results of applying specified auditing procedures.
- f) **Ministry staff and the auditors meet for the exit conference.**
- g) **You make any changes** arising from the *Standing Policy Committee* review of the annual report. If you significantly change performance measures, the auditors may have to reapply specified auditing procedures to them. Then your management may have to give the auditors an updated representation letter before the auditors can issue a double-dated (or updated) report.
- h) **You give a printer's proof** of the annual report to the auditors.

3.3 Review the *Information Needs List* from the Auditors

The auditors should compile a list of all the required information (the *Information needs list*) and give it to you before starting final fieldwork. The list should itemize schedules, deadlines, working papers, and any other necessary information. **Review this list as soon as you get it.** Talk to the auditors if you don't get it before they start final fieldwork or if you have any concerns with it.

3.4 Prepare a Support File for the Information Needs List

Assemble an *Information needs support file* with all the documents in the *Information needs list*. This will minimize questions from the auditors. Organize the file based on the structure of your annual report. For example, it may have sections on core businesses, goals, and performance measures. Include the following material:

- a) **All schedules and reports** used to compile the information in the ministry performance measures. Connect the schedules and reports directly to the underlying (source) records. Auditors should be able to see clearly that the annual report includes all relevant information from the underlying records.
- b) **An analysis of significant variances** from plans and prior years. This analysis is a valuable tool for understanding any changes in results and evaluating the reasonableness of the numbers and other data in the measures.
- c) **Information on internal controls** for ministry performance measures. Professional standards require auditors, in planning the audit, to understand the internal controls. Help the auditors by supplying up-to-date documents on internal control systems. **If there are any significant changes in internal controls, tell the auditors at once so they can:**
 - i) **assess** the potential impact of the changes well before the critical audit completion target date, and
 - ii) **adjust** audit plans accordingly.

3.5 Keep Another Support File for Other Data

Keep a separate support file for other numeric and qualitative data in the annual report. It helps you compile reliable and comparable information over time.

4. **When the Auditors Arrive: A Smooth Entry**

When the auditors arrive ensure they have the necessary resources to complete their audit as quickly and efficiently as possible. It helps if you:

- a) **Introduce the auditors to the audit coordinator** and explain the types of questions and concerns the auditors can bring to the audit coordinator.
- b) **Set the auditors up in the appropriate working space** already arranged—see section 3.1(d) above.
- c) **Give the auditors a contact list** with key people for each section of the annual report and their phone numbers and office locations.
- d) **Assign one person to locate documents** for the auditors. Your staff should be able to gather information more quickly and with less disruption than the auditors can.
- e) **Give the auditors the support file** described in section 3.4 , in whichever form—electronic or paper—they prefer.

5. **When the Auditors Leave: A Post Mortem**

The annual audit process can always be improved. When the audit ends, the **audit coordinator should meet with the audit manager and audit principal** to discuss achievements, problems, and solutions. Each party should describe how the others performed during the audit and suggest ways to improve the process.

6. **References**

Journal of Accountancy, January 1998

Ministry of Finance Annual Report Standards, April 2002 <http://internal.gov.ab.ca>

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