

Comptroller General of the Republic of Chile



Value for Money:
A Plan to Develop a Methodology
to Audit Environmental Issues

A Special Project



By Ximena Mura Alvarez
International Fellow
CCAF-FCVI
2000-01

ACKNOWLEDGEMENTS

Sustainable development involves the integration of social, economic, and environmental concerns into the activities of the private and public sectors. Progress toward sustainable development requires an integrated approach to planning, decision making, and effective control.

The Comptroller General of Chile currently is revising its mandate to include the implementation of value-for-money (VFM) audit. My project designs a strategic approach to develop an appropriate VFM methodology to audit issues relating to the environment.

The Fellowship Program has provided me the opportunity to enhance my skills and continue my professional and personal growth, by encouraging innovation, creativity, and progressive thinking. I have also had the chance to participate in several courses, seminars, and workshops, as well as on-the-job training in a VMF audit in the Office of the Auditor General of Canada (OAG).

I wish to express my appreciation to CCAF-FCVI, Inc., for sponsoring me in this program and to the OAG for giving me the opportunity to prepare this document. I also want to thank my own Office for sending me on this program –International Fellowship Program, class 2000-2001.

I would like to take this opportunity to express my sincere thanks to the people who work in CCAF-FCVI, Inc., especially Marta Arnaldo, Manager of the International Affairs and Kimberley Speek, Fellowship Program Liaison.

My special thanks also goes to the staff at the OAG, who provided the courses and on-the-job training, in particular to Manfred Kuhnappel, Director of International Affairs; Rita Gudziunas-Mankowski, Director of Professional Development; and Jacques Leduc, ex- Director of International Affairs.

I would like to also say thank you to the Environment Audit Team – John Affleck, Director; James Mckenzie; and Francois Lachapelle for their orientation, advice and availability. The Team gave me the opportunity to observe and participate in various meetings, workshops and interviews.

I also appreciated the interest demonstrated by Thomas Wileman, Ron Wolchuck, and Wayne Cluskey who made valuable suggestions.

OBJECTIVE OF PROJECT

This special project provides a strategy to create a VFM methodology to audit environmental issues. Therefore, the proposed strategy is a first step toward creating a methodology for including the environment as part of a VFM audit.

Today, impacts on the environment are a major concern and often the most important issue in the policies and the regulations of government entities and the public sector. Serious events need to be reported to government as soon as the events are confirmed. For that reason, it is helpful to define a methodology to effectively deal with environmental problems before they happen.

Each organization varies in its purpose, structure, governance, and controls, and this diversity has a range of environmental impacts. The public is demanding more audits of environmental issues. It is therefore important that the Comptroller General of Chile undertake value-for-money auditing that includes the subject of the environment.

This project will have an impact on:

- the structure, governance, and controls of the Office itself;
- environmental legal aspects;
- public sector management;
- the integration of the environment, the economy, and the social dimension;
- protection of human health;
- protection of ecosystems;
- carrying out international obligations;
- an integrated approach to planning and decision making that takes into account the natural resource costs and economic options;
- pollution prevention, endangered species, biological diversity and marine pollution;
- predicting the environmental impact;
- finding the best means to reduce adverse environmental impacts; and
- presenting predictions and options based on factual evidence and thorough analysis in order to make decisions.

BACKGROUND

The impacts of change on the natural environment are complex and a major concern. The magnitude of current and past economic activity is causing environmental damage, widespread pollution, and the degradation of renewable resources and disruption of ecosystems. Thus, there is an urgent need to improve our understanding of the effects of economic and social developments on the environment (see Appendix N°1).

Chile's environmental policy is based on the concept of sustainable development, understood as the reconciliation of social aspect, economic growth and environmental protection. Furthermore, the topic of the environment has a constitutional rank, by guaranteeing all the people the right to live in a pollution-free environment. In 1994, Chile promulgated "The General Framework Environmental Law".

Currently, the mandate of the Comptroller General of Chile is still under discussion, and a proposal to include several modifications (see Appendix N°2) including value-for-money auditing is being reviewed by Congress,.

The Comptroller General is independent, objective and assures that the administrative activity of the government adds value by improving an organization's operation. However, auditors need to continue to review and improve their audit practices to ensure that the most important issues of the environment are addressed.

The VFM audit is a systematic, purposeful, organized and objective examination of government activities. Its scope includes the examination of economy, efficiency, cost-effectiveness, and environmental effects of activities, procedures, accountability relationships, protection of public assets, and compliance with authorities (see Appendix N°3).

Environmental audits are complex and auditors must make clear decisions about the appropriate priorities. Professionals need a better understanding and knowledge of issues. They also need to ensure that their work is in accordance with the government's policy and the protocol of the public sector, and that it is performed in an ethical and responsible manner.

In Canada, the Commissioner of the Environment and Sustainable Development was appointed in 1996. This individual has the responsibility within the Office of the Auditor General of Canada to determine whether the federal departments and territorial governments have taken into account environmental and sustainable development issues when developing policies, programs and operations (see Appendix N°4).

APPROACH

In order to develop the methodology, the Comptroller General of the Republic of Chile must consider several key subjects. Designing the strategy and defining the objectives and goals should be done in consultation with the stakeholders, by analysis and consensus and in accordance with the characteristics, organization and structure of the Comptroller's Office. Key questions to be addressed include:

- *What should be done in the short and long term to achieve the goal(s) and objective(s)?*

The Comptroller's Office should be able to build a solid awareness and understanding of the subject matters such as VFM audit and environment and sustainable development issues, in the context of Chile's legal framework system.

- *What kind of issues should be considered to develop the methodology?*

Once the Office has a clear knowledge of the environmental issues, it should select in a fair way, the environmental matters that should be considered as priority.

- *How should this be done?*

Then, the Office should identify the human, material and financial resources that are necessary to develop the methodology.

- *How should the four "es" –economy, effective, efficiency, and environment– be used and integrated?*

The Comptroller's Office needs to assess what the four "es" and the impact of their integration mean. It will then need to establish and ensure the use and integration of economy, effectiveness, efficiency and environment within its mandate.

- *When should this be done?*

The Office should establish a target date for completing the entire task that will be necessary to develop the methodology approach. The date will be selected based on such factors as the perceived need for audit work of this nature and the ability of the Office to resource this new audit practice.

- *How much financial, material and human resources should be committed to auditing?*

At the same time, the Office needs to know and establish the resources required for auditing in relation to the other commitments of the Office.

- *What will be audited?*

Thereafter, the Office should establish the criteria and the scope for the audits to be conducted annually.

- *What is the capacity of the Office to conduct environmental audit?*

This point addresses the issue of capacity, that is, the Office's limitation in its infrastructure and its mandate versus its ability to conduct audits.

- Several questions on the audit reports include:
 - ✓ *How should the performance be reported?*
 - ✓ *How should the results be reported?*
 - ✓ *How assess the quality of the commitments, reports and results?*
 - ✓ *How to use the report?*
 - ✓ *Could other ways to be looked at to report or to monitor?*

IMPLEMENTATION OF THE STRATEGY

The Comptroller's Office must develop and define a logical process in order to include the environment in value-for-money auditing. The steps in this process include:

Step 1: Discuss with senior managers

When I return to the Comptroller's Office, the first stage of this initiative is to share with the Comptroller General and his deputy my experience in the Fellowship Program. At this time, a copy of this Special Project Report, the strategy to create a VFM methodology to audit environmental issues will be presented to the Comptroller General.

The next stage will be a formal presentation to the Executive Committee to give members an understanding of the concept of integrating the four ``es``—economy, effectiveness, efficiency and the environment— and the bases and methodology of VFM environmental audit. I will also inform the Executive Committee about the proposed plan for implementation provided in this paper.

The proposal will be to convince the Comptroller General and other senior managers in the Office to implement the VFM methodology to audit environmental matters and to discuss how we involve the social and economic impacts. Furthermore, I will describe how a pilot VFM environmental audit of a selected audit entity could be undertaken and the necessary training for our staff.

Step 2: Define methodology approach

Before the audit is selected, the Office will need to understand that the methodology is a well-designed and disciplined approach that meets stated objectives and addresses high-risk concerns of the environment. It should develop a guide with clear, concise guidelines that define different concepts and describe the logical process of how to audit environmental issues as part of a value-for-money audit.

Step 3: Select topics for environmental audit

The next step is to identify a VFM environmental audit of a selected entity as a pilot project. An implementation date will be set for the pilot audit. The appropriate criteria and scope for choosing an audit issue should consider the following:

- the relevant matters of significance such as environmental health and risks to human health that are required for the environmental audit;
- the different needs of the public, the business and stakeholder communities;
- measurable benefits;
 - Choose an area where an environmental problem exists, for example, air pollution.
 - Make sure that the audit helps to mitigate the existing problem and prevents similar problems for the future.
- good relations among the Comptroller General and the different institutions involved in the environmental matter;
- the real likelihood of achieving and carrying out the objectives and goals of the audit;
 - skills and knowledge available;
 - the probability of success.

The Office should also consider the following:

- experiences of other countries in environmental matters;
- different sources of information;
- issues, scoping, and timing of the environmental issues; and
- how to create consensus on the methodology.

Step 4: Establish required resources

➤ **Audit resources**

The Office needs to hire and develop competent audit personnel to conduct the VFM environmental audit in an efficient, effective and environmentally responsible manner.

The first phase includes selecting personnel by assessing the knowledge, skills and abilities of all relevant staff and deciding who should have first priority to participate in this special project. Where necessary, outside special resources who might participate should be identified.

The technical resources that may be required in specific areas during implementation of this project, such as, ecology, biology and chemical engineering, should also include equipment, such as air monitoring stations.

➤ **Time**

As this will be the first experience in VFM environmental auditing, there will be a learning curve that may take considerable time.

It is necessary to define the time for designing and delivering the training both in the classroom and on the job. We should also define the time required to select both the trainees and trainers who will participate in this project. Another important consideration is how much work is involved in carrying out this project.

Taking into account all of the elements and time required in each phase, it may be about two years before the audit would be completed.

Step 5: Determine training required

- **Provision of training**
Training resources are needed for both the classroom session and for the “on-the-job” pilot audit. The resources needed include training personnel, and technical, financial and material resources.
- **Training personnel**
Today the auditors need to be well trained and to pay more attention to all aspects of environmental problems. Chile’s economic climate has been shaped. However, increasing globalization is leading to large, more complex business entities that demand to be more efficient and require greater knowledge of environmental issues. This condition will likely place greater demands on the auditor’s scope of work and responsibilities.
- **Technical resources**
An appropriate training room will be necessary, including overhead projectors, video and some technical material. Support will be necessary from the National Environment Commission or Environment Health Services.
- **Financial resources**
Financial resources are needed to provide the material to the trainees and also to finance any external assistance that might be necessary.
- **Training courses**
The Comptroller General should provide training in the environment and sustainable development areas. Activities such as courses, brainstorming sessions, in-class case studies, checklists and audit programs are appropriate.

Furthermore, it is necessary to have a good understanding of the concept of comprehensive auditing and also to acquire knowledge of the fundamentals, elements and phases of value-for-money auditing. This would include understanding the content and structure of the approach used by the Canadian OAG in environmental auditing.

Taking into account all of the VFM concepts that will be necessary before the planning phase of the pilot project, participants should be introduced to the following courses during the three-week training period:

- ✓ *The concept of comprehensive auditing*
- ✓ *Fundamentals, elements and phases of VFM audit*
- ✓ *Experience of the environmental audit in the Office of the Auditor General of Canada*
- ✓ *The concept of sustainable development in Chile as well as in Canada*

The key areas to be discussed in these courses and the benefits to be derived from doing so are explained in more detail in Appendix N°5.

Once knowledge is acquired on the different matters previously indicated, participants would be well prepared to play an active part in the demonstration pilot project during each stage. For instance, during the planning phase they should get to know and understand what entity and what environmental issues are being audited.

Thereafter, the next step would be a two-week training period. This would include the examination phase, followed by the reporting phase in accordance with the experience of the Canadian OAG in environmental auditing. Moreover, it is recommended that the auditors should participate in the two-day VFM evidence course. (More detail is provided in Appendix N°5.)

This training process will better prepare them for conducting the examination and reporting phase of the audit. Furthermore, the guidance of the graduate Fellows who have acquired training in the Fellowship Program as well as from other parties, as necessary, should be considered.

Step 6: Communicate audit plan to management

The Comptroller's Office needs to inform management of the selected government services to be audited, explain the introduction of VFM environmental audit and encourage them to take part. The Office should explain that the emphasis will be on social aspects. This way, the Comptroller General will be able to give reasonable assurance that the funds are spent properly and in compliance with sustainable development.

To begin the audit, the Office must let the selected entity know about the audit decision made by the auditee management to include them; the plan to implement the audit project; its purpose, approach, methodology, and timing; and how the results will be reported.

Step 7: Create an audit advisory committee

When conducting a VFM environmental audit, it will be necessary to select persons for an audit advisory committee. The role of the committee is to provide advice and suggestions to the auditing team during the planning, examination,

and reporting phases. The committee members should have the expertise in environmental matters and come from a variety of backgrounds, including the private sector.

The first step for the advisory committee will be to help establish a logical schedule, identify the environment issues to be audited and define its potential impact. (More detail is provided in Appendix N°6.)

Step 8: Establish and implement of the pilot environment audit

Once an adequate audit team is selected and established, it should carry out the pilot environment audit project following an audit plan and standard international best practices described in the training courses. (More details are included in Appendix N°5.)

The results of the demonstration pilot project should be reported to the management of the government services selected. The Comptroller's Office will then review the results and a final report will be prepared. Finally, one copy of this report will be sent to Parliament, to the Ministry Secretary General of the Presidency, and other parties decided on during the planning phase.

Step 9: Review performance of the pilot audit

The Comptroller General needs to identify the positive and negative consequences of the pilot audit, and to evaluate the performance of the trainees during the training sessions and the examination phase of the pilot project. The results should be discussed with the Advisory Committee.

Step 10: Assist in implementing report

The Office should also assist the audited entity in determining improvements in management practices and controls that would lead to better decisions in accordance with sustainable development practices.

EXPECTED BENEFITS

The nature of this special project considers that the introduction of VFM audit by the Comptroller General of the Republic will help to improve accountability and will help the Office to further develop its focus on economy, efficiency, effectiveness, and environment in the public sector.

The project will give relevant information to improve the public sector services and training of auditors in the following respects:

Improved public sector services

- **National Congress**

- ✓ The results of the audits could help harmonize national and international legislation in the subject of the environment.
- ✓ National Congress would be able to better address and implement the sustainable development policies and environmental protection.
- ✓ National Congress would know better whether there is a need to amend or implement the laws, regulations and controls for environmental matters in order to ensure sustainable development.
- ✓ National Congress would be able to make better decisions concerning the approval of new environmental legislation based on the result of audits.
- ✓ National Congress would be able to provide advice and complete information to the parliamentarians to help them consider the environmental and sustainable development consequences of their legislative and oversight work.

- **Management within the Government Services**

- ✓ The government body would be supported in their efforts to integrate environment and sustainable development considerations into their decision making for programs and operations.
- ✓ The audit results would help in monitoring the extent to which the public organizations have met their objectives and have implemented the action plans set out in their strategies.
- ✓ The government would improve its capacity to recognize the interrelationships of the environmental problems and the public sectors, the private sector, industry, the community, and individual citizens.
- ✓ The efforts of different institutions and organizations would be more integrated and their competencies would be clarified in the area of the environment.
- ✓ Measures to prevent and mitigate the environmental impact and promote pollution prevention would be incorporated to maintain the long-term quality of the ecosystem.
- ✓ Regulations and guidelines would be efficiently and effectively implemented to help improve the environmental focus on reducing and preventing air and water pollution and protecting health human.
- ✓ Information would be systematized and made available to facilitate decision making on environmental matters.

- ✓ A better understanding of environmental audit and accountability relationships would be established.
- ✓ Feedback and reaction to the environmental audit, conclusions and recommendations would be provided.

- **The Comptroller's Office**

- ✓ The Comptroller's Office would be able to start an experimental phase necessary for preparing a good value-for-money methodology in environmental matters and integrating the four "es" –economy, effective, efficiency, and environment.
- ✓ The Office would gain additional knowledge and experience in VFM auditing, and would develop a better understanding of environmental audit, sustainable development, and accountability relationships.
- ✓ Upon its completion, the Office would produce a new kind of useful and helpful report.
- ✓ The Office would be able to review the environmental audit process so it could identify expected outputs, resources needed, necessary skills, specific responsibilities, a performance measurement system, the relationship with the other offices, and define requirements and standards.
- ✓ The Office would be able to establish a more realistic budget, which is needed to carry out this work.
- ✓ The Office would be able have staff members who participated in the implementation of this project and who would have gained knowledge and experience in value-for-money auditing of environmental issues. Thereafter, they would be capable of giving advice and suggestions to other staff members in future VFM audits.
- ✓ The emphasis of the environmental audit will be "society-oriented" and the Comptroller General will be able to give reasonable assurance that the funds are spent properly and in compliance with sustainable development.

Training of Auditors

- ✓ The Comptroller Office's awareness and practice of sustainable development and environment audit would be increased.
- ✓ The capability of the Office's staff to recognize and integrate the four "es" into the audit work, and to enhance and develop the institutional capacity would be strengthened.
- ✓ Modern auditing practices would be learned and implemented in accordance with the needs, and technological requirements would be updated. This would assist

the staff in becoming a highly qualified multi-disciplinary team of professionals with the abilities and capacity to conduct subsequent audits.

- ✓ Staff would learn how to interpret sustainable development in terms of the integration of the social, economic and environmental concerns.
- ✓ Staff would recognize that they can play a significant role in helping to control environmental issues by measuring the effectiveness of government programs, reporting whether the government has used public money with regard to economy and efficiency, and developing the government's activities for protecting of the environment.
- ✓ The different member of Congress, government services management, and the community, as well as individual citizens, would learn to appreciate the usefulness of the Office's work.
- ✓ Staff would gain more confidence in their work since they are assisting the Office in developing this methodology, audit approach, assisting management in making better decisions, and providing Parliament with more complete and useful information.

CONCLUSION

This special project focusses on how to create a methodology to audit environmental issues. Rather than offer an analysis of the issue, it provides a broad outline of the range of economic, legal and social complexities involved, and makes explicit the plan to guide the Office in adopting the strategies described when changes are made to mandate.

The first step is to gain an adequate understanding of the content and structure of environmental audit and system used by the Office the Auditor General of Canada. Thus, the development of VFM audit for the environment must integrate the four ``es`` –economy, effectiveness, efficiency, and environment– so that it will have a positive impact on the Comptroller's Office itself, environmental legal aspects, and public sector management.

APPENDIX N° 1 - Aspects of the Environment

Environmental issues that may become priorities in the 21st century include climate change, the quantity and quality of water resources, and deforestation. All of these issues arise from a lack of governance at national and international levels.

The trend has been toward more international agreements that vary widely in scope in form and substance. These agreements tend to focus on control, including global pollution, conservation of ecosystems, and international control, in order to protect world heritage sites, wetlands and areas of significant biological diversity.

Sustainable development has been defined by Canadians people as "development that meets the needs of the present without compromising the ability of future generations to meet their needs." (World Commission on Environment and Development, *Our Common Future*, 1987)¹

Sustainable development is a continually evolving concept based on the integration of social, economic and environmental concerns into the activities of private or public organizations².

In February 1997, Chile and Canada signed a Free Trade Agreement, which included two parallel agreements: one on labour and one on environment. The agreements entered into force in July 1997. The Agreement on Environmental Cooperation demonstrates the importance given to environmental considerations in Canada and Chile.³

The principal objectives of the Agreement on Environmental Cooperation are to strengthen both the environmental co-operation between the two countries, and the effective enforcement of domestic environmental laws and regulations. Other objectives include: the promotion of sustainable development, co-operation to better conserve, protect and enhance the environment, and the promotion of economically efficient and effective environmental measures.

The rapid urbanization and industrialization are creating high levels of air and water pollution. We live in a world of accelerating global change, where co-ordinated environmental stewardship is lagging behind economic and social development⁴.

¹ Web site: Sustainable Development Strategy for the Office of the Auditor General

² Web site: Sustainable Development Strategy for the Office of the Auditor General

³ Web site: Canada-Chile Agreement on Environment Cooperation

⁴ Report: GEO, Global Environment Outlook, 2000, of the UNEP

This development is fed by the increasing complexity of environmental regulation and high control costs as well as demands from the private sector and the public sector for more flexibility, self-regulation, and cost-effectiveness.

Sustainable development means development that meets the needs of the present without compromising the ability of future generations to meet their own needs⁵.

The assessment of implementation, compliance, and effectiveness of the project initiatives is complicated and plagued by gaps in data, conceptual difficulties and methodological problems. One reason is that society can solve some problems while aggravating others, particularly over the long term.

Although the existence of interlinkages⁵ between environmental problems is now better known, we still lack understanding of exactly how the issues are linked, to what degree they interact, and what the most effective measures are likely to be.

Today, Chile's environmental challenges are problems that can't be postponed. Thus, environmental laws and institutions have been strongly developed over the past few years in Chile. Command and control policy via direct regulation is the most prominent policy instrument, but its effectiveness depends on methods of implementation and control, and policy integration.

The quality of life today is defined not only by access to the goods, services, education, and health, but also by the right to live in an environment free from contamination. Key issues are as follows:

- Increase the economy
- Protect the environment
- Establish social equity
- Provide access to natural resources
- Prohibit activity that is detrimental to the environment

The importance of each point depends on the characteristics of each country. In the case of Chile, these concerns have been addressed through a Strategy of Policies of the State. In 1994, Chile promulgated The General Framework Environmental Law.⁶

Chile's environment policy is conceptually based on the idea of sustainable development understood as the reconciliation of economic development and the struggle against poverty with the need for protection of the environment.

The underlying principles of this policy are:

⁵ Report: GEO, Global Environment Outlook, 2000, of the UNEP

⁶ Report: Chile Facing the year 2.000, Foreign Relations Ministry

- Stability: Avoid discouraging development; send out clear, consistent, sustained signals, and establish principles and criteria that inspire the broadest possible consensus.
- Gradual Approach: Assimilate environmental aspects with reasonable, fair, and attainable timeframes.
- Realism: Assess the magnitude of the environment problems, the timing and means of addressing them, as well as the resources and the instruments needed to do so.

In 1980, the topic of the environment was given Constitutional rank for the first time. The Constitution of 1980 commissioned the State with guaranteeing all people the right to live in a pollution-free environment, ensuring that rights are not trespassed against, and overseeing the preservation of nature.

The public resources available for these purposes must be shared with other socially beneficial projects. The Government of Chile is thus firmly committed to promoting efficient administration, including an assessment of environmental costs and benefits and allowing the State to fulfill its functions effectively. The latter means both limiting the size of the public sector and establishing a subsidiary role for the State. Furthermore, market instruments shall be used to correct negative impacts whenever possible.

Chile recognizes that clean environment and uncompromised renewable natural resources are a competitive advantage that, in keeping with its economic strategy, the nation must exercise and seek to preserve.

The priorities on Chile's environmental agenda have been to create an institutional framework capable of responding to the challenges posed by the new environmental requirements on the domestic and international levels, to approve applicable environmental legislation and appropriate mechanisms, and to address the most urgent environmental problems.

Since 1990, environmental aspects have been explicitly included in all sectorial and global policies. Furthermore, a review of existing legislation was conducted, and proposals for the future have been prepared. The National Commission on the Environment (CONAMA) was also created to guide and co-ordinate public sector administration in this area.

Legislation

In March 1994, the General Framework Environmental Law took force. Until then, there was a plethora of specific and varied norms, regulations, and environmental standards in Chile, although there was no comprehensive legislation that established certain basic criteria for the environment. Thus the

new legislation is in fact the first cohesive, comprehensive set of regulations on the environment in Chile⁷.

A study conducted by CONAMA identified over nine hundred regulations dealing with the environment.

The Framework Law does not propose to cover all possible topics related to the environment, since specific legislation will be needed to regulate in detail certain areas of particular complexity. Rather, the Law addresses only general aspects of the country's environmental policy and is intended to serve as a point of departure for a process aimed at organizing environmental regulations in Chile.

The Law was born of an intensive process of consultations and consensus-building among actors involved in environmental affairs; it reflects the pervasiveness of institutional awareness and citizen commitment in Chile today on the topic of the environment.

The legislation establishes a variety of instruments for environmental management, providing the State with mechanisms for administering and regulating the use of environmental components. Key among them is the Environmental Impact Assessment (EIA) system to which all new investments – whether public or private – shall be submitted. In addition, the Framework Law calls for the formulation of environmental quality and emissions standards, and plans for management, prevention and cleanup. It addresses the issue of legal responsibility for environmental damage and guarantees access to the judicial system to secure reparations for the harm done.

⁷ Report: Chile Facing the year 2000, Foreign Relation Ministry

APPENDIX N° 2 - Organization of the Government and the Comptroller General's Office in Chile

The constitution established Chile as a Unitary State. By law, it is divided into thirteen regions, governed by Presidential appointee. The Constitution also establishes that Chile is a republic and democracy. The State is divided into three independent powers and various autonomous institutions.⁸

The Executive Branch

The President of Chile oversees the government and its administration. The President, who is the Head of State, is elected to a six-year term in a direct election and must receive a majority of the votes cast. If more than two candidates run for the Office of President, and none receives a majority of the votes, a run-off election is held between the two top candidates. The President cannot be re-elected to a consecutive second six-year term.

The Executive has special powers including the elaboration, ratification, and proclamation of laws; the ability to call plebiscites; the submission of Constitutional amendments; the appointment of Cabinet members, Ambassadors and regional authorities (no Senate approval is required); the appointment of the Controller General of the Republic, with the consent of the Senate; the appointment of the Supreme and Appellate court judges; the appointment and removal of the Commanders in Chiefs of the Armed Forces; and an oversight role in the nomination, promotion, and retirement of military officers. In addition, The President conducts international relations and assumes the position of Commander in Chief of the Armed Forces during war.

The Legislative Branch

The Chilean National Congress is bicameral (two assemblies); it has a Senate and a Chamber of Deputies. The Chamber of Deputies consists of 120 directly elected members, two for each of the 60 electoral districts defined by the law. Every four years, the entire Chamber of Deputies is renewed.

The Senate consists of 38 members elected to represent the Senatorial districts. In general terms, Senatorial districts are equivalent to the regions, but the six more populated regions are each divided into two Senatorial districts. Each Senatorial district elects two Senators, whose seats are up for election at the same time.

⁸ Report: Chile Facing the year 2000, Foreign Relations Ministry

The Judicial Branch⁹

The Judicial Branch is made up of the Supreme Court, Appellate Courts and the local tribunals. The President of Chile chooses the Supreme Court judges and its public prosecutors from a list of five names, submitted by the Court.

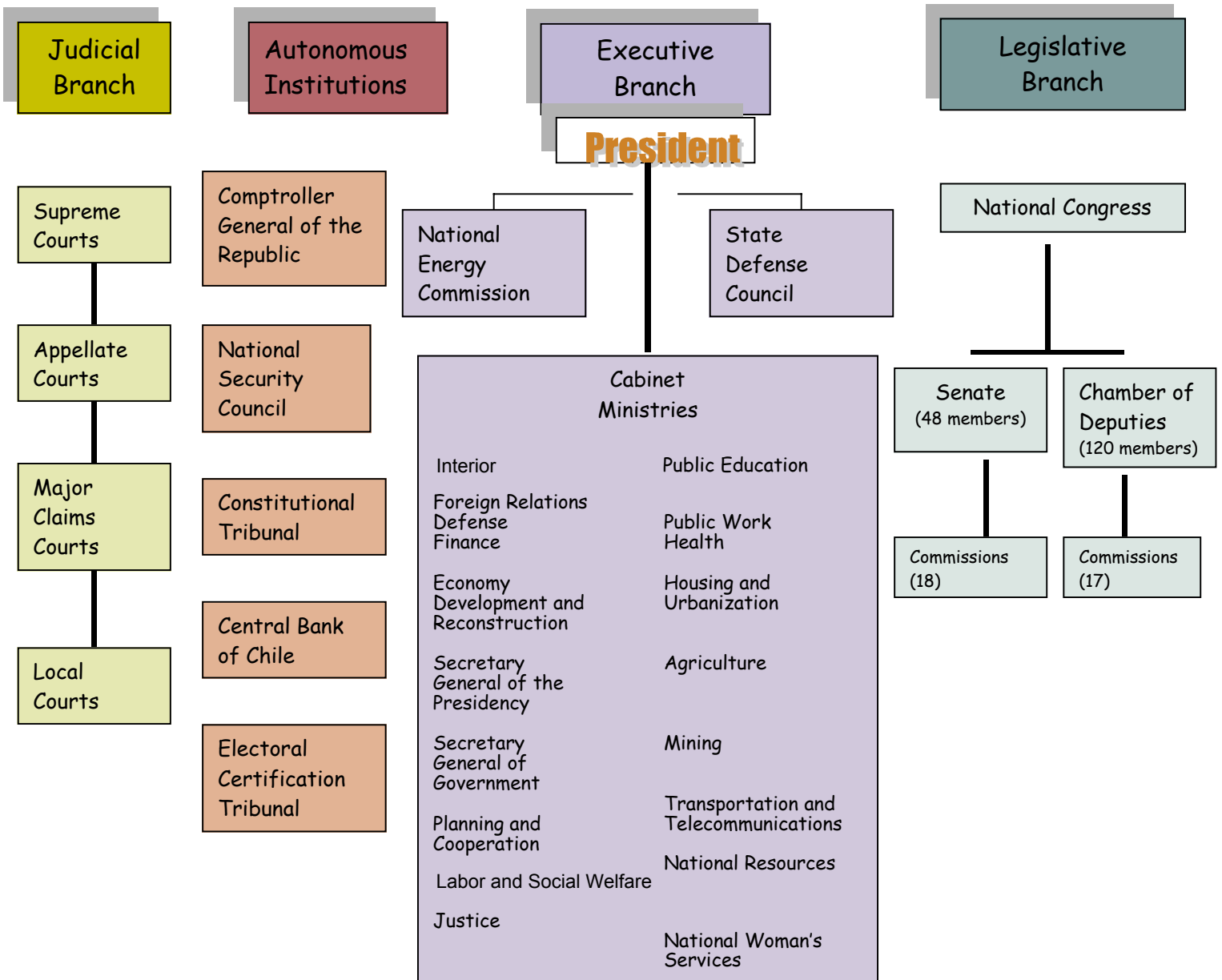
Chile has 16 Appellate courts with jurisdictions over one or more provinces. The majority of the appellate tribunals have four members, although the largest, Santiago, has 25. The President of the Republic selects the judges, and public prosecutors of the Appellate courts are selected by the President of the Republic, who chooses from a list submitted by the Supreme Court. The judges must be at least 30 years old and have had some experience with the judicial system.

Other Institutions

Other important Chilean institutions include the autonomous institutions, the Armed Forces, and the National Security Council. Autonomous institutions include the Central Bank, the Comptroller General of the Republic, the Electoral Tribunal, and the Constitutional Tribunal. The autonomous institutions maintain the balance between the branches of government, and particularly over acts of the Executive. This is of special importance in a strong Presidential system such as Chile's, where the Executive has the majority of the power.

⁹ Report: Chile Facing the year 2000, Foreign Relations Ministry

Government Structure



The Comptroller General of the Republic¹⁰

The Comptroller General of the Republic oversees the legality of administrative acts. It also controls government investments and expenditures. The President of the Republic designates the Comptroller, with Senate approval. The Comptroller General can remain in office until the age of 75 and cannot be removed before then.

The Comptroller's Office is a very particular and complex organization that demands well-developed management skills to meet its goals effectively. It has had an important role in modernizing the administration of the nation.

To meet its goals, the Controller General has defined different policies. Our control consider important values such as respecting legal aspects, protecting public patrimony, and reinforcing honest administration. However, the Controller General is also aware of the controlling tasks of other institutions, such as Congress, the Courts, the nation's Defense Department, and Internal Controllers. Our Office is willing to help strengthen the internal supervision of these institutions and work with them.

Current Mandate

The basic responsibilities of the Comptroller General's Office are contained in articles 87 and 88 in the Constitution of Chile as follows:

“An independent institution with the name of Comptroller General of the Republic will perform the control of legality of the acts of the Administration, the income and the investment of the treasury funds, municipalities and the other services as required by laws, will examine and judge the accounts of the people in charge of the assets of these entities: carry out the general accounting of the Nation, and perform the other functions entrusted by their own constitutional organic law.”

Organic Law

The law N°10.336, with its modifications, is the up-to-date constitutional law of the Office. In summary, the general objectives of the control function being performed by the Office are as follows:

- *To ensure that the activities conducted are in accordance with the laws and the mandate of the organization*
- *To verify the protection of financial material, human and technical resources managed by state institution*

¹⁰ Report of The Comptroller General of the Republic, 2000

- *To collaborate with management for improving its administrative procedures, by communicating with the responsibilities established and making recommendation for improvement*
- *To give an opinion of the financial economy reporting, mainly for determining the accomplishment of the adherence to established agreements between relevant parties, such as loans from the World Bank or the Interamerican Development Bank, or under special laws.*

Responsibilities of the Comptroller General

The Comptroller General's Office in Chile is an independent organization established in the Constitution, and generally the Office of the Comptroller General undertakes compliance and financial audits in accordance with its present mandate (Organic Law). Its responsibilities include:

- ✓ *Controlling the legality of the act the administration*
- ✓ *Monitoring the flow, use and investment of treasury funds*
- ✓ *Conducting compliance and financial audit*
- ✓ *Evaluating the functioning of governmental accounting and other accounting data systems*
- ✓ *Examining the accounting of internal control system of the entities to ensure the reliability of information and protection of assets*
- ✓ *Making a financial analysis of the receipt and application of funds and for resources*
- ✓ *Confirming compliance to legal regulations, standards, instructions, and administrative principles*
- ✓ *Verifying whether all activities conducted are in line with dispositions of organic statute*
- ✓ *Summarizing and making any investigation with the purpose of establishing facts and determining the management responsibility of the public agent, especially in situations where constitutional action needs to be taken on behalf of the state interest*
- ✓ *Occasionally the office also performs operational audits upon special request, when the necessity arises.*

Reporting lines

The reports are sent to the Comptroller General for final review and approval, and are then sent to the relevant department or entity concerned. However, some reports are discussed by the Executive Committee when the public is interested in the results of important control activities performed by the Office. Attached to each report is a special letter containing relevant matters and recommendations that the Comptroller General thinks should be considered by management so that corrective action can be taken. In special cases, some

reports are the source to initiate a summary investigation or start with a judicial process.

Current skills of Office staff

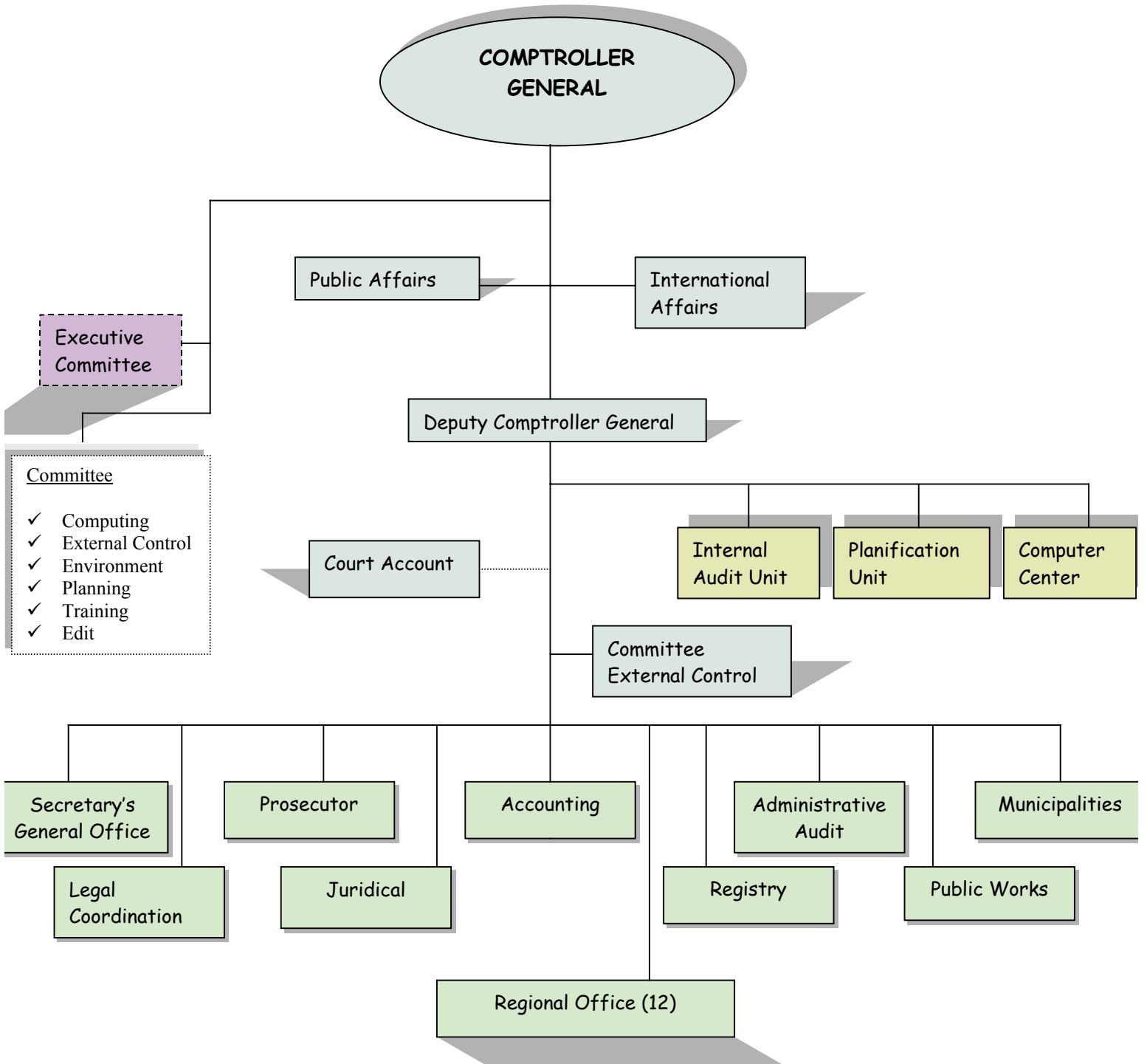
The Office has a Training Committee that organizes courses and seminars on different topics. These sessions are useful to the staff members who are responsible for developing audit work. Every year the Committee reviews the results, and supplies the training needs to the Office.

The trainers are chosen from different divisions or units of the Comptroller's Office. From time to time, special trainers are invited from other entities for specific courses or seminars.

Twelve years ago, The Latin American and Caribbean Organization of Supreme Audit Institutions, OLACEFS, was designated to develop an international training program in the field of computer auditing for the Comptroller General's Office. People from other countries of South America attend these seminars every year.

The majority of the time several members of the staff have participated in courses or seminars offered by the Office and other entities such as universities, institutes and workshop developed by INTOSAI and Development Initiative (IDI).

ORGANIZATION CHART



APPENDIX N° 3 - Fundamentals of Value-for-Money Audit

Definition of Value-for-Money Auditing¹¹

A Value-for-Money (VFM) audit is a systematic, purposeful, organized, and objective examination of government activities. It provides Parliament with an assessment of the performance of these activities; it provides information, observations, and recommendations designed to promote answerable, honest, and productive government; and it encourages accountability and best practices.

The scope includes the examination of economy, efficiency, cost-effectiveness, and environmental effects of government activities; procedures to measure effectiveness; accountability relationships; protection of public assets; and compliance with authorities. The subject of the audit can be a government entity or activity (business line), a sectoral activity, or a government-wide functional area.

The *Auditor General Act* of 1977 provides the original legal basis for the Auditor General to carry out VFM audits. It was amended in 1995 to include responsibilities related to environmental matters. Section 7 (2) of the Act requires the Auditor General to “call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons.”

Office planning process

The Office has established an extensive process of consultation, analysis and planning in order to ensure that relevant matters of significance are audited in a timely fashion and that the requirements of the mandate are met. It is not possible to audit every aspect of government, and a process is needed to select the most significant areas. The following is a brief outline of this process.

VFM audit priorities

The VFM audit priorities provide a corporate focus on current and future audit priorities and major audit themes.

The priorities are based on a broad overview of the government's activities designed to identify emerging issues; major changes in programs, administrative systems, and spending levels; opportunities for improvement; risks; and current concerns of parliamentarians and Canadians.

¹¹ Value-for-Money Audit Manual, Office of the Auditor General of Canada

Information for analysis is sought from members of Parliament; deputy ministers and their senior officials; eminent leaders from business, the consulting and accounting professions; the academic world; non-government and environmental organizations; and other levels of government. Audit teams input their knowledge of major developments in their entities and functional areas.

Planning Phase¹²

The planning phase is the first step in starting a VFM audit. It is the preliminary work to build the structure of the rest of the audit. Effective planning contributes to effective audits.

Planning can consist of two main parts (depending upon the audit and the knowledge of the team):

- Overview
- Survey

Overview – the big picture

The overview is the start of the audit that focusses on learning about the entity or function, the environment in which it operates, and the issues it faces. The aim of the overview is to set the overall strategy for the audit, that is, how the team will approach the audit and how it will focus its resources.

Getting sufficient knowledge at the start provides the basis for planning and executing the audit later. The amount of time needed by the audit team for overview will depend upon how familiar the team is with the entity or function and the issues. A team looking at an entity or function for the first time will need more time to become familiar with operations and issues than will an experienced team that is looking to update and build on its knowledge.

The outputs of the overview are:

- Knowledge of the entity or function;
- Lines of enquiry (LOEs);
- Initial scoping decisions; and
- Identification of functional responsibility leaders (FRLs) to consult.

Survey – planning the work

In the survey stage, the audit team examines the lines of enquiry to determine and define the issues that are significant. These significant areas, sometimes referred to as matters of potential significance or MOPS, will form the basis for the audit program. The purpose of the survey phase is to prepare an audit plan and program that will guide the audit team's work through the examination phase.

¹² Value-for-Money - The Bus Tour (How to audit), Self Guide, Office of the Auditor General of Canada

The survey focusses on:

- *significance, relevance and materiality of issues*
- *auditability*
- *risk*
- *matters of potential significance*
- *scope of the audit*
- *objectives*
- *criteria.*

Survey Report

At the end of the planning phase, the audit team will prepare a survey report that consists of the results of the survey work and the details concerning the audit plan. This report is presented to the Report Steering Committee and the audit Advisory Committee for comments and input.

Planning Phase Outputs

The work during the planning phase should provide the audit team with the necessary elements it needs to do the audit; these are:

- *approval to do the audit;*
- *an audit plan explaining the audit projects or tests that will be used during the examination phase;*
- *the resources and time needed; and*
- *a focus on the significant issues.*

Resources are limited; therefore, some key questions should be asked to help highlight audits with a high potential for making a difference;

- Are the right resources available?
- How urgent is the issue?
- Is there public/parliamentary interest?
- What is the timing?

Planning for Communication Through Quantification

Improving the level of quantification in our audit chapters is a quality goal of the office. Auditors must plan early to ensure that findings can be quantified at the end.

Significant Aspects

- **Audit Control File** – The audit control file is available on the intranet and should be one of the first documents a team reviews. It helps to plan the audit and identifies all the necessary elements of each phase of the audit.
- **Audit Program** – the audit program includes survey results and audit plan.
- **Scope of the Audit** – The areas subject to audit are determined by reviewing issues against relevance to the OAG mandate, whether the

issue can be audited and whether it is significant and of a nature to be reported to Parliament.

Examination Phase

The mission of the Office of the Auditor General of Canada is to provide objective information, advice and assurance to Parliament and to promote accountability and best practices in government operations. To accomplish this mission, the Office's Strategic Framework calls for high quality products and excellence in us work.

The Office's quality standards state that any audit must have necessary and sufficient evidence to support observations. In the Examination Phase, evidence is gathered to be able to make observations and conclude against the objectives of the audit.

Purpose

The purpose of the examination phase is to gather sufficient and appropriate evidence. The evidence is reported along with the conclusions and recommendations in an audit. Therefore, we must have rigour in how we conduct our audits and gather evidence. In the examination, we follow the audit program to collect, test and analyze evidence so that it will stand up to scrutiny and challenge.

Members of Parliament and key stakeholders have asked the Office to help them understand the significance of our observations. For example, what is the extent of the problem? How frequently does it occur? and What are the cost implications? To respond, we will use evidence to quantify our observations as much as possible.

Significant Aspects

- Audit evidence – This is the information collected and used by the auditor to determine whether criteria have been met. The Office's VFM audit standards state:
 - *"Audits must have necessary and sufficient evidence to support observations."*
 - *"Audits must involve objective evaluation of the evidence against criteria to develop observations."*
- Collecting evidence – The six steps in evidence gathering show a general path from audit issue to analysis specific data. The auditor must always think about the process and make judgments along the way about the work that can, and should, be done.

- Tools and techniques – There are a number of ways to collect and analyze data. The ones chosen will depend upon the kind of data available and the relationship the auditor wants to examine.
- Audit findings – All the evidence gathered is assessed against the criteria so that findings can be developed.
- Audit observations – Observations are statements that report to Parliament the matters of significance found in the audit. Quantitative measures should be used where possible to better explain the importance of the observations.

Reporting Phase

While the Auditor General can report up to four times a year to the House of Commons, he usually produces three Reports to the House –in April, September and December. The Office also produces the annual Report of the Commissioner of the Environment and Sustainable Development. The reports contain chapters written by the audit teams to document their findings and recommendations.

If he deems it necessary, the Auditor General may make special reports to the House of Commons at other times.

The Auditor General provides information to promote answerable, honest and productive government. The chapters call attention to "anything that he [the Auditor General] considers of significance and of a nature that should be brought to the attention of the House of Commons" (AG Act S. 7(2)). The purpose of reporting audit findings is to achieve positive change and to make a difference.

What to Report

In its text "Accountability, Performance Reporting, Comprehensive Audit – An Integrated Perspective", the CCAF has listed several factors that can influence decisions on what to report.

Some of those factors are:

- dollar value;
- risk;
- impacts;
- potential for savings;
- previous history and inaction;
- accountability concerns;
- quality of controls;
- ethics and integrity; and
- compliance with authority.

Judging what is significant and should be reported can depend upon the audit environment. For example, consider the following:

- the potential for positive change;

- sensitivity - political or private;
- Auditor General priorities and themes; and
- public perceptions and interests.

How to report

Reports are accurate and unbiased. Fair and balanced reporting means chapters that:

- are objective;
- focus on improvements rather than blame;
- use examples, both good and bad; and
- are aware of sensitive issues.

How findings are reported is important. The tone of a message may affect the reader's perception of objectivity and balance in the chapter.

Significant aspects

- **Conclusions** – The auditor needs to form an opinion about whether or not the objectives were met. Where there are significant deviations from the criteria, conclusions should also state the implications and indicate the need for change. Conclusions can be provided throughout a report, at the end, or both.
- **Recommendations** – Audits must include recommendations to guide the needed corrective actions called for in the audit.
- **Substantiation** – Substantiation is a key component of audit documentation and must be reviewed by the principal and Assistant the Auditor General.
- **Clearance** – The clearance process is part of quality control and helps ensure the fairness, completeness and accuracy of audit observations.
- **Main Points** – Each chapter begins with several short statements that bring out the key messages in the audit.
- **Departmental Responses** – Departments have the opportunity to respond to audit recommendations. Their responses are published as part of the chapter. Responses are short and specific comments about the department's agreement, or disagreement, with the conclusions and recommendations and how they intend to proceed to address the recommendations made.
- **Tabling** – The Auditor General's report to Parliament is "tabled" or put on the table at the House of Commons. A specific date is set aside, and after the report is presented to Parliament it is considered a public document.

Follow-up

The Office's VFM Audit Follow-up Standards state that "the status of corrective action on all recommendations and significant observations from previous Auditor General reports and, where appropriate, those made by parliamentary

committees, must be followed up by the Office until the issue is resolved, or no longer needs follow-up, and reported to Parliament on a timely basis."

This means that about two years after a chapter is published the Office must determine whether the department has taken any corrective action to address the concerns raised in the original chapter.

Why The Office follow-up

Follow-up work is important because Parliament needs to know if departments are fixing the problems that the Office identified, and the Office wants to know if its audits are "making a difference". Follow-up may also have a deterrent effect - departments know that the Office is coming back to report its follow-up findings to Parliament.

What is Follow-up?

In each of the Office's chapters, we make observations and recommendations are made about issues or problems that need to be fixed by departments. Parliamentary standing committees, such as the Public Accounts Committee, may also make observations or recommendations that relate to the same subject. Follow-up work focusses on the recommendations and whether sufficient action has been taken on those recommendations.

Follow-up provides a moderate level of assurance to parliamentarians that deficiencies reported are being addressed. A moderate level of assurance means that the Office restricts its follow-up work to reviewing documentation, conducting interviews and performing enough analysis to form an opinion about whether progress, as described by the department, is reasonable. Follow-up is not another audit, and the Office would only re-audit if it found that the situation as such that additional work was needed.

Other than supervision by the Assistant Auditor General (AGG), follow-up work does not have the same controls as a VFM audit –that is, there are no advisory committees, Report Steering Committee (RSC) submissions or second AAG reviews.

Roles and Responsibilities

The follow-up principal is responsible for the quality and content of the follow-up. The audit team that conducted the original audit is responsible for conducting the follow-up. If possible, the person who led the original audit should lead the follow-up.

The Follow-up Functional Responsibility Leader (FRL) provides any necessary guidance and advice to the follow-up teams. The FRL is the overall author of the

follow-up chapter, which combines individual follow-up reports into a single chapter for the Auditor General's Report.

APPENDIX N° 4 - The Legislative Base of the Office of the Auditor General of Canada

A Strategic Framework for the Office of the Auditor General of Canada Management Effectiveness¹³

Mission The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

Key Capability

Management systems that support the most productive use of, and accountability for, Office resources

Measure

Pulling together:

- Client satisfaction surveys
- Trends in costs
- Cost comparability with others
- Service targets met
- Practice review results
- State of technology

Strategies

- Revisit the structure and management practices of Office committees.
- Provide staff with improved capability to access, share and apply information generated via electronic and other means inside and outside the Office.
- Complete and use a set of performance indicators for the Office.

The people's right to control how public funds are collected and spent is one of the cornerstones of democratic government. In Canada, like other parliamentary democracies, this control is carried out on behalf of the people by their elected representatives, the members of Parliament.

The government of the day must obtain the permission of Parliament before it can collect or spend money. After it spends public funds, the government must also report on its use of the money authorized by Parliament. This obligation of government to answer for its actions is called accountability.

A process has been developed to hold the government to account. The government must report on its performance by submitting to the House of Commons: the annual spending plans or Estimates of all departments and reports on their past year's activities, and the annual financial statements showing all federal spending, borrowing and taxing, known as the Public Accounts of Canada.

These documents provide members of Parliament with a great deal of information for holding the government to account. But one more link in the accountability process is needed: independent assessment of that information. Members of Parliament need this impartial assessment so that they can effectively assess the government's performance

¹³ Information from Web Site Office of the Auditor General of Canada

and gain assurance that the information provided accurately reflects the results of the activities authorized by Parliament.

The Auditor General of Canada audits government operations and provides the information that helps Parliament to hold the government to account for its stewardship of public funds.

A brief history

John Lorn McDougall, a former member of Parliament, was appointed the first independent Auditor General of Canada in 1878. The job was previously performed by a government official, the deputy minister of Finance.

The Auditor General of that day had two main functions: to examine and report on past transactions and to approve or reject the issue of government cheques.

The Auditor General's annual reports to the House of Commons in this era were weighty documents, sometimes as long as 2,400 pages! They listed every single government transaction, from the purchase of bootlaces to contracts for bridge building. These detailed records revealed a focus different from the work of the federal audit Office today. But like today, the Auditor General of the late 19th century was expected to report on whether public money was spent the way Parliament intended.

In 1931, Parliament transferred responsibility for issuing cheques to a newly created government official, the Comptroller of the Treasury. This drew a clear line between the duties of government and the auditor: the government was responsible for collecting and distributing public funds, while the auditor was responsible for examining and reporting on how those funds were handled.

The work of the Office began to move in its current direction in the 1950s, when the Auditor General began to report on "non-productive payments". These were transactions that, while legal, provided no apparent benefits to Canadians. The reports were controversial, however, because government officials felt the Auditor General was commenting on government policy and therefore going beyond his mandate.

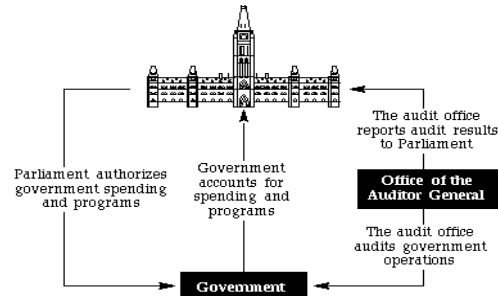
New legislation, the 1977 *Auditor General Act*, clarified and expanded the Auditor General's responsibilities. In addition to looking at the accuracy of financial statements, the Auditor General was given a broader mandate to examine how well the government managed its affairs. The new Act maintained the important principle that the Auditor General does not comment on policy choices but does examine how those policies are implemented.

In June 1994 the *Auditor General Act* was amended to provide for the production of up to three reports per year in addition to the annual Report.

Further amendments to the Act in December 1995 established the position of Commissioner of the Environment and Sustainable Development within the Office of the Auditor General. These amendments also impose an obligation on government departments to publish annual sustainable development strategies.

Role of the Auditor General: to aid accountability

The Auditor General aids accountability by conducting independent audits of federal government operations. These audits provide members of Parliament with objective information to help them examine the government's activities and hold it to account.



For the Auditor General to be effective, it is important to be objective. To help achieve this objectivity, Parliament has taken steps to keep the Auditor General independent of the government.

What are the Auditor General's responsibilities?

The 1977 *Auditor General Act* directs the Auditor General to address three main questions:

Is the government keeping proper accounts and records and presenting its financial information accurately?

This is called "attest" auditing. The auditor attests to, or verifies, the accuracy of financial statements.

- *Did the government collect or spend the authorized amount of money and for the purposes intended by Parliament?*
This is called "compliance" auditing. The auditor asks if the government has complied with Parliament's wishes.
- *Were programs run economically and efficiently? And does the government have the means to measure their effectiveness?*
This is called "value-for-money" or performance auditing. The auditor asks whether or not taxpayers got value for their tax dollars.

"Value for money" is an approach to auditing that examines management practices, controls and reporting systems. In addition to information in attest and compliance reports, legislators also need information on how well the government has implemented its policies and programs. Value-for-money audits, which are sometimes called performance audits, do not question the merits of government policies; rather they help legislators judge how well the policies and programs were implemented.

The attest, compliance and value-for-money audits combine to form an audit framework that, over time, provides a complete view of the organization. The term "comprehensive

auditing" is used to describe this audit framework developed by the Office to meet requirements of the *Auditor General Act*.

Crown corporations are also subject to a form of comprehensive audit, established in 1984 with amendments to the *Financial Administration Act*. While the Auditor General may not be the auditor of all Crown corporations, the audit provisions for those organizations are the same. They include: annual audit; an audit opinion on the fairness of the presentation of the financial statements and one on compliance with authorities; a provision to raise other matters as the auditor considers appropriate; and a periodic special examination, including an audit opinion on the fulfillment of management responsibilities.

The 1995 amendments to the *Auditor General Act* gave the Auditor General the responsibility to report to the House of Commons on the extent to which departments have met the objectives set out in their sustainable development strategies and action plans, and on all other questions related to the environment and sustainable development that he considers should be brought to the attention of the House of Commons.

What does the Auditor General audit?

The Office of the Auditor General audits most areas of the Canadian government. This includes a vast range of activities: health, culture, the environment, finance, agriculture, transportation, and scientific research, to name a few. In total, audit coverage includes:

- *about 70 federal government departments and agencies ranging from small boards to large, complex organizations whose activities extend across Canada and overseas;*
- *about 40 Crown corporations, for example, the Canadian Broadcasting Corporation and the Royal Canadian Mint. Under the Financial Administration Act, most Crown corporations must undergo a value-for-money audit (called a special examination) every five years. In addition, their financial statements are audited annually;*
- *about 10 departmental corporations;*
- *about 60 other entities and special audits;*
- *areas of responsibility shared by more than one department, such as immigration;*
- *issues that affect the entire government, for example, personnel matters or the use of computers;*
- *the governments of the Yukon and the Northwest Territories and some 15 territorial agencies; and*
- *some United Nations agencies, such as the United Nations Educational, Scientific and Cultural Organization, and the International Civil Aviation Organization.*

With the creation of the position of Commissioner of the Environment and Sustainable Development in December 1995, the Auditor General's responsibilities related to environmental matters increased considerably. The Commissioner, on behalf of the Auditor General, reports annually to the House of Commons on all matters related to the environment and sustainable development that he considers should be brought to its

attention. In addition, government departments must publish annual sustainable development strategies and action plans that are audited by the Commissioner.

How does the Office do its work?

Attest auditing

Every year, the Government of Canada publishes the Public Accounts of Canada, which contain the government's annual financial reports. Included in the financial statements of the government is an aggregation of the financial results of all departments, agencies, Crown corporations, and several large special funds. The Auditor General's Office performs attest audits of the financial statements of the government and most Crown corporations. Attest audits result in opinions that indicate whether reliance can be placed on the organization's financial statements. In addition, some agencies and Crown corporations publish their own financial statements; the Auditor General examines these statements and expresses an opinion on their fair and consistent presentation.

Auditors plan and perform attest audits using their knowledge of accounting and auditing and of the government organizations being audited. As part of these audits, they gather evidence, on a test basis, to support the amounts and disclosures in the financial statements. Audit procedures might include comparing the results of operations with planned results, checking the reliability of a department's financial control systems and checking samples of transactions and balances. Specialized computer programs are used throughout the audit.

In reporting the results of audits, the Auditor General may call attention to other matters of importance.

Compliance auditing

The audit team reviews transactions to see if the department or agency conformed to all laws and regulations that govern its operations. This involves checking the spending authority contained in the annual budget and relevant legislation.

Value-for-money auditing

Because of the large size of some departments, the Office focusses each audit on a selected number of activities. In this way, the major programs and aspects of the department can be examined over a number of years.

A value-for-money audit, which can last from 6 to 18 months, has three stages: planning, examination and reporting. At all stages, the multidisciplinary audit team works closely with an advisory committee of experts who offer advice and review audit results. In the planning stage, the audit team studies the program and its working environment. Team members identify areas to be examined during the audit and establish the audit criteria standards to which the audited activities can be compared. During the examination phase, the audit team gathers and tests evidence and analyzes findings. This may require field work that can range from checking inventory in government warehouses to examining the management of an agricultural research station. At this point, the department may decide to make changes based on the preliminary findings. In the reporting phase, it is decided what will be included in the Auditor General's Report to the House of Commons.

Comprehensive auditing

The term "comprehensive auditing" is used when an audit of a department encompasses all of the three preceding components: attest or financial auditing, compliance auditing and value-for-money auditing.

Special examinations of Crown corporations

In addition to value-for-money audits of departments and agencies, the Office also carries out audits (special examinations) on Crown corporations at least once every five years. In the planning stage, a plan is submitted to the audit committee of the Board of Directors, which includes criteria against which the identified key areas will be assessed during the examination. The audit report resulting from the examination is provided directly to the Board, and, in exceptional circumstances, to the responsible minister and Parliament.

Reporting audit results

Since 1879, the principal instrument for reporting has been the Auditor General's annual Report to the House of Commons. With the amendment of the *Auditor General Act* in June 1994, the Auditor General may produce up to three reports per year in addition to the annual Report. In any given year, these reports contain the results of:

- *comprehensive audits of federal departments and agencies, and of issues that cross departmental lines;*
- *government-wide audits (for example, the use of computers);*
- *follow-up reports, which review the actions taken by departments in response to previous audits; and*
- *audit observations, which are significant matters that are not included in any of the above-noted audit reports.*

Some other audit results are reported through different means:

- *Audit opinions on transactions, financial statements, compliance and other matters relating to Crown corporations are submitted to the responsible minister for tabling in Parliament.*
- *Special examinations of Crown corporations are reported directly to their Board of Directors; in certain cases, they are also submitted to the responsible minister and to the House of Commons through the annual report of the corporation.*
- *Opinions on the government's financial statements (attest audits) are included with the publication of the Public Accounts of Canada every autumn.*
- *Audits requested by the Governor in Council (Cabinet) on matters of interest to the Government of Canada and not covered by the Auditor General Act are reported in different ways, depending on the circumstances of each audit.*
- *Audits of the governments of the Yukon and Northwest Territories are reported annually to their legislative assemblies.*

Reporting by the Commissioner of the Environment and Sustainable Development

The 1995 amendments to the *Auditor General Act* established the position of Commissioner of the Environment and Sustainable Development within the Office of the Auditor General. These amendments also require departments to prepare sustainable

development strategies and action plans by December 1997 and to update them at least every three years. The Commissioner, on behalf of the Auditor General, reports annually to the House of Commons on the extent to which departments have met the objectives and implemented the plans set out in those strategies. He does this in a new annual "green" report required by the amendments. The report also includes the Commissioner's observations on the number, nature and status of environmental petitions sent to the Auditor General and forwarded to the appropriate minister(s), who must respond directly to the writer within specified time frames.

APPENDIX N° 5 - Training Courses and Pilot Project

I) Training Courses:

- *Course 1°: “The Concept of Comprehensive Auditing”*

Objective:

“To give trainers an understanding of the concept of comprehensive auditing”.

Components:

- ✓ *Concept and main characteristics*
- ✓ *Methodology*
- ✓ *Benefits and limitations*

Time: Four sessions in two days

- *Course 2°: “Fundamentals, Elements and Phases of VFM audit”*

Objective:

“To give trainers an understanding of the fundamentals, elements and phases of the VFM auditing”.

Components:

- ✓ *Concept of VFM auditing*
- ✓ *Concept of the four “es” – economy, efficiency, effectively and environment*
- ✓ *Relationship between the parliamentary system and the new mandate*
- ✓ *Terminology used in VFM auditing*
- ✓ *Purpose and characteristics of VFM auditing*
- ✓ *Benefits of the application of VFM auditing*
- ✓ *Definition of the examination phase, reporting phase and follow-up*
- ✓ *Description of the planning phase and consideration of aspects such as: audit priorities, overview, audit survey, audit criteria, audit scope, audit program, risk assessment.*

This material should be discussed in full detail and some exercises will be done in relevant areas.

Time: Twelve sessions in six days

- *Course 3° “Experience of the environmental audit in the Office the Auditor General of Canada”*

Objective:

“To give the participants an understanding of the OAG’s experience in environmental audit”.

Components:

- ✓ *Concept of the environmental audit*
- ✓ *Relationship between the parliamentary system and the new mandate*
- ✓ *Terminology used in VFM auditing*
- ✓ *Purpose and characteristics of the environmental audit*
- ✓ *Benefits of the application of VFM auditing*
- ✓ *Description of the planning phase*

This material should be discussed in full detail and some case study exercises will be done in relevant areas.

- Time: Eight sessions in four days

- *Course 4°: “The Concept of Sustainable Development”*

Objective:

“To give trainers an understanding of the concept of sustainable development”.

Components:

- ✓ *Concept and main characteristics*
- ✓ *Definition*
- ✓ *Benefits and limitations*

Time: Six sessions in three days

- *Course 5°: “Examination Phase and Reporting Phase in the Environmental Audit”*

Objective:

“To reinforce knowledge in VFM auditing and environmental auditing acquired by the trainers in the previous sessions and to gain an understanding of the examination and reporting phases.

Components:

- ✓ *Definition of the Examination Phase*
- ✓ *Description of the audit program and audit criteria*
- ✓ *Description of the audit process, audit procedures and evidence*
- ✓ *Documentation*
- ✓ *Description of audit findings and audit observations*
- ✓ *Discussion about the recommendations*
- ✓ *Discussion about the report*

Time: Ten sessions in two weeks

This material should be discussed in full detail and some case study exercises will be done in relevant areas such as climate change and atmospheric pollution.

- *Course 6°: “VFM Evidence in the Environmental Audit ”*

Objective:

“To improve the quality of audit reports, and improve the cost effectiveness of data collection and analysis”.

Components:

- ✓ *Examination planning framework*
- ✓ *Sources and methods for collection of VFM data*
- ✓ *Techniques for analysis of information*
- ✓ *Presentation by senior practitioners*

Time: Four sessions in two days

II) Phases of the Pilot Project

Once an adequate audit is selected, the audit advisory should consider the following:

- ✓ *Logical schedule of achievement*
- ✓ *Identification of the environmental issues to be addressed*

- ✓ *Essential elements of the risk in each environmental subject and its impact and potential impact*
- ✓ *Clear statement of the authority, responsibility, role and delegation of all the players in the environmental issues*
- ✓ *Communication of the strategy*
- ✓ *Product lines*
- ✓ *Methodology approach*
- ✓ *Establishment of performance indicators*
- ✓ *Measurement of performance and the impact of the follow-up audit work*
- ✓ *Establishment of working groups*
- ✓ *Development of a checklist or audit program (specifically targeting the overview/survey stage of audits and providing auditors with assistance in making scoping and criteria decisions)*
- ✓ *A series of “brainstorming” with different levels.*

BIBLIOGRAPHY

Report of the Comptroller General of the Republic, 2000

Report: Chile Facing the year 2000, Foreign Relation Ministry

Sustainable Development Policy of the Republic of Chile

Sustainable Development Strategy, Office of the Auditor General of Canada

Value-for-Money Audit Manual, Office of the Auditor General of Canada

Bus Tour, How to audit, Self Guide, Office of the Auditor General of Canada

Report GEO, Global Environment Outlook, 2000, of the UNEP