A DISCUSSION PAPER

The Impact of Performance Audits:
Defining, Measuring and Reporting Impact

CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION

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The Impact of Performance Audits – Defining, Measuring, and Reporting Impact

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Executive Summary

Purpose of This Paper

This discussion paper synthesizes the information available on the impact of performance audits. It is meant to stimulate discussion and sharing about current approaches to measuring and reporting the impact of performance audit activities in Canada's public sector.

How We Did It

The research that supports this paper draws on various sources of information, including academic papers, guidance documents, annual reports, websites, and news reports, as well as interviews with 34 senior representatives of municipal, provincial, and federal audit institutions in Canada, the United Kingdom, and the United States.

Why It's Important

Audit institutions play a recognized and valuable role as accountability officers, providing independent information to legislative assemblies on the performance of governments. Many audit institutions also see themselves as agents of change and seek to "have an impact." Stated another way, they seek to foster positive change in the public service or in society at large through their performance audits. However, measuring this impact has proved challenging. Audit institutions around the world face several constraints that limit their capacity to fully measure their impact, the main one being the fact that audits are only one of many potential factors that have an influence on public policy outcomes.

What We Found

We analyzed the recent annual reports of 22 Canadian audit institutions (federal, provincial, and municipal) and found that they generally use a small number of indicators to measure the impact of their performance audits. The most common indicators are statistics related to audit recommendation implementation rates and results of satisfaction surveys conducted with auditees and elected officials.

This paper demonstrates that there are opportunities for audit institutions to improve their reporting on the impact of their performance audits by increasing the number and type of indicators they use, broadening their coverage to include financial impact and qualitative information. There are also opportunities to make more information publicly available and to improve the presentation of the information already provided.

Beyond the measurement and reporting of impact, efforts can also be made to increase the impact of performance audits and many Canadian audit institutions have taken recent initiatives in this direction. These efforts have targeted all phases of the audit process, from audit selection to follow-up activities. They include:

- making audit selection processes more rigorous;
- increasing emphasis on establishing and maintaining effective relationships with auditees;
- using new social media platforms to disseminate audit conclusions to a broader audience; and
- increasing the frequency of follow-up activities as well as the level of assurance provided for this work.

Introduction

Legislative performance auditing (or value-for-money auditing) has been conducted for over 40 years in Canada. In 1977, the *Auditor General Act* added performance auditing to the mandate of the Office of the Auditor General of Canada. Over the following years, a similar mandate was granted to provincial auditors general and to the auditors general of several large municipalities, including Montréal and Toronto.

Today, all the provincial legislative audit offices publish performance audit reports at least once a year, as do a number of municipal audit offices and the British Columbia Auditor General for Local Government. Together, these audit institutions and the Office of the Auditor General of Canada have an annual budget of over $200 million, of which more than $75 million is dedicated to performance audit activities.

The trend of expanding public sector performance audit activities that began four decades ago is continuing. For example, a law adopted in Quebec in April 2018[1] expanded the mandate of the Quebec Municipal Commission to include responsibilities for conducting performance audits in municipalities with populations between 10,000 and 100,000.[2] In addition, as part of the ongoing process of creating a new fiscal relationship between First Nations and the Government of Canada, the federal government and the Assembly of First Nations have recently commissioned studies to explore the possibility of establishing a First Nations Auditor General office with a mandate that would include conducting performance audits.[3]

From the above, it can be concluded that there is continuing interest in performance audit activities in Canada's public sector and that significant sums of taxpayers' money will continue to be spent on these activities for the foreseeable future.

As with any sizeable investment of public funds, it is fair for governments, legislators, auditors, and citizens in general to ask what value is obtained from this investment and whether performance audits generate positive impacts.

While it is possible to quickly identify performance audit reports that have had lasting impacts on governments and public administration in Canada, assessing the impact of each performance audit or of performance auditing in general is much more difficult.

Thinking about such an assessment raises some basic questions.

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

These are the three main questions that will be explored in this discussion paper.

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[1] *An Act to amend various legislative provisions concerning municipal affairs and the Société d'habitation du Québec*
[2] These municipalities are required to have a performance audit conducted every two years and can mandate an external auditor to perform this audit or adopt a regulation permanently designating the Quebec Municipal Commission as the external auditor.
[3] The first report is available on the CAAF website: *Establishing a First Nations Auditor General* (2018).

Purpose and Structure of This Discussion Paper

This paper synthesizes the information and knowledge available on the impact of performance audits. It is meant to stimulate discussion and sharing about current approaches to measuring and reporting the impact of performance audit activities in Canada's public sector. In particular, it aims to engage decision makers in audit offices and the staff who are tasked to compile, analyze, and report performance information on the impact of performance audits.

This discussion paper is divided in three parts, each of which focuses on one of the three questions listed above.

Part 1, What Kind of Impact?, defines the term "impact" and explores key questions about this concept, drawing on the academic literature for answers. In addition, it presents the views of senior Canadian auditors on the impact of performance audits, based on the interviews we conducted for this research project.

Part 2, How to Measure and Report Impact?, discusses the measurement of performance audit impact and the subsequent reporting of this information by audit institutions. It presents an overview of the common performance indicators used by audit offices in Canada and abroad and discusses the strengths and weaknesses of various indicators. It also highlights good practices that audit institutions can adopt to improve how they measure and report their performance audit impact.

Part 3, How to Increase Impact?, includes a brief overview of good practices that Canadian audit institutions have adopted or are currently implementing to increase the positive impact of their performance audits.

Finally, a list of relevant articles, books, and reports consulted during the preparation of this discussion paper is included in the References section at the end of the paper.

Research Methodology

This discussion paper draws on various sources of information, including academic papers, guidance documents, annual reports, websites, and news reports, as well as interviews with senior performance auditors.

The research conducted to support this paper was largely based on a review of Canadian and international academic literature on performance auditing published over the last 25 years, as well as a review of the latest annual reports (from 2017 and 2018) published by audit institutions in Canada and other countries.

In addition, we conducted semi-structured interviews with 34 senior representatives of municipal, provincial, and federal audit institutions in Canada, the United Kingdom, and the United States. The list of interviewees is in the Acknowledgements section at the end of this paper.

Part 1 – What Kind of Impact?

1.1 Value and Impact

Section highlights

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

All legislative audit offices have an important accountability role, which they fulfill by providing assurance and objective information on government finances and operations to elected officials. Audit offices accomplish this in large part by conducting performance audits: independent, objective, and reliable examinations of whether government programs, activities, or organizations are performing in accordance with the principles of economy, efficiency, and effectiveness.

Audit institutions are critical features of good governance in the public sector, fostering transparent and accountable government and trust in public administration. As such, they possess inherent institutional value that is widely accepted.

In addition to their traditional role as accountability officers, many Canadian and foreign audit offices today see themselves as agents of change and seek to "make a difference" and to "have an impact." This intention is reflected in the mission statements, value statements, and strategic plans of various audit offices and is supported by the International Organization of Supreme Audit Institutions' (INTOSAI) vision of public auditing making a difference in the life of citizens.[4]

> In Canada, a review of the mission statements, values, and strategic plans of the provincial and federal legislative audit offices reveals that a majority of these offices see themselves as agents of change.

In Canada, for example, the value statement of the Office of the Auditor General (OAG) of Canada says, "We focus on significant issues to make a positive and measurable impact."[5] Similarly, the OAG of Alberta states in its *Performance Audit Program of Work 2018-2021* that its vision is "Making a difference in the lives of Albertans" and the OAG of Prince Edward Island's 2018 *Report to the Legislative Assembly* states that "We select our audits on the basis of significance and risk with the goal of making a positive difference for Islanders." The audit offices of both New Brunswick[6] and Nova Scotia[7] list "impact" as part of their values, which they also define in terms of selecting significant audit topics with the goal of "making a

[4] INTOSAI, ISSAI 12, Value and Benefits of SAIs – Making a Difference in the Life of Citizens
[5] Who We Are, OAG Canada website, consulted on 13 February 2019
[6] OAG New Brunswick, Strategic Plan 2014-2020, p. 5
[7] Our Values, OAG Nova Scotia website, consulted on 13 February 2019

positive difference" for their citizens. Finally, the values of the Office of the Auditor General of Québec include "Acting for maximum impact."

Reading these mission statements, values, and strategic plans, a clear sense emerges that "making a difference" and "having an impact" are synonymous expressions and that both have a positive connotation.

But what does the term "impact" mean, exactly?[8]

In a strict linguistic sense, impact is the effect or influence of one person, thing, or action on another. In an auditing context, therefore, impact means the effect or influence of an audit or an audit office on the auditees, the government, or society in general. And, for audit offices that see themselves as agents of change, the "effect or influence" can be interpreted as a change resulting from an audit. A working definition of "impact" for the purpose of this discussion paper, which focuses on performance audits, is thus proposed: Impact means a change in the public service or society resulting from a performance audit. This change can be qualitative or quantitative.

1.2 Impact in Theory and Practice

Section highlights

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

The question of the impact of performance audits has received attention from many auditors over the years, but also from a number of academic researchers interested in public administration, governance, and accountability. As a result, many reports and articles have been written on the subject. Using this literature as a source, we explore in this section several key questions about audit impact, from both a theoretical and practical perspective. (A complete list of the studies we consulted is in the References section at the end of this paper.)

Can Impact be measured?

Starting in the 1990s, many governments changed their management philosophy from managing outputs to managing results (outcomes). Accordingly, public sector organizations had to change how they measured and reported their performance to emphasize outcomes more than they used to.

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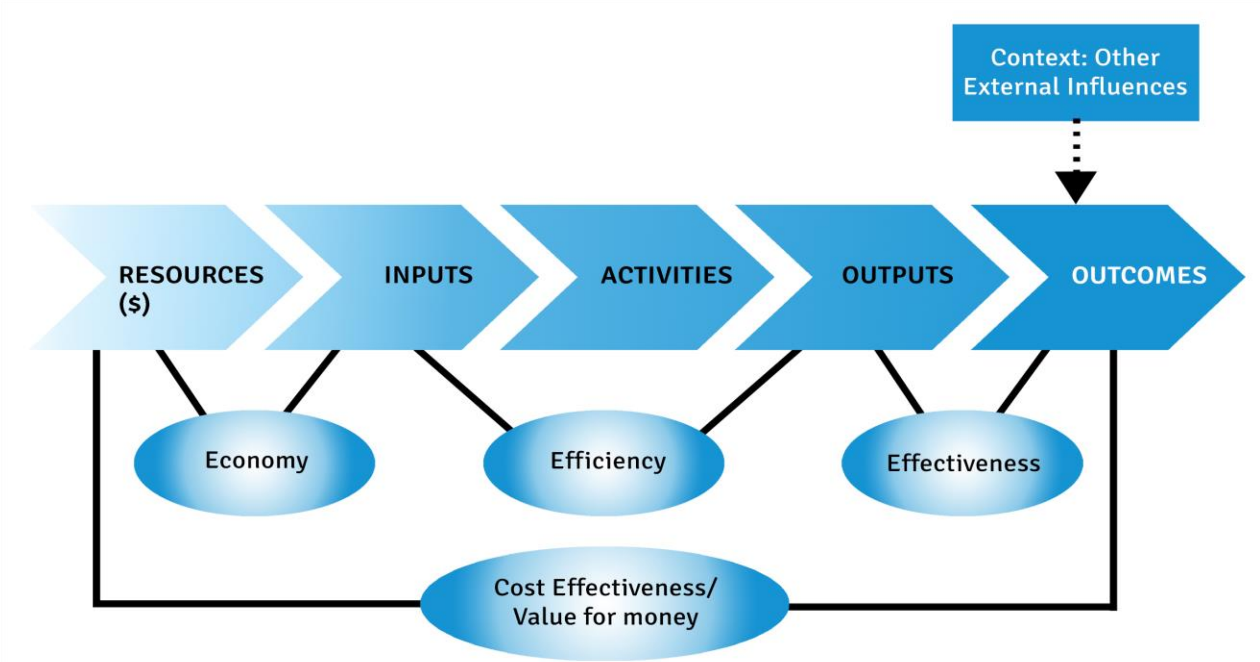
[8] For the purpose of this paper, and to ensure clarity, we will use the term "impact." Audit institutions in Canada and elsewhere also often use the terms "values" and "benefits."

As explained by John Mayne (2001), this situation created a challenge for public sector organizations because they now had to deal with what he called the "attribution problem." This problem arose because the focus on performance measurement shifted from outputs, a part of the result chain (**Figure 1**) that departments and agencies have control over, to outcomes, which can be influenced by other external stakeholders and are therefore not under the sole influence of departments and agencies. The likelihood that many stakeholders could influence an outcome meant that public sector organizations had to find ways to separate their contributions to an outcome from other contributions. In other words, they had to determine the extent to which achieving an outcome could be attributed to their own actions.

Figure 1 – A Typical Result Chain for an Audit Institution Conducting Performance Audits



Source: Modified from HM Treasury (UK), *Choosing the Right FABRIC – A Framework for Performance Information*, 2013

In the interest of coherence and consistency in practice, many audit institutions in governments that have adopted a "managing for results" philosophy have also expanded their reporting practices. They have moved from reporting solely on their outputs, such as how many audits they produced in a year, to reporting on both outputs and outcomes: the impact of their audits. In doing so, audit institutions were faced with the same attribution problem as other public sector organizations: how could they isolate their contributions (audits) to the achievement of an outcome from other such contributions? For example, it is generally recognized that audits help improve governance and accountability, but many other factors— including reforms, new legislation, and continuous adoption of best practices—also contribute to this improvement.

Fortunately, there is a way to report on outcomes without having to confront the attribution problem head on. This solution consists of shifting the focus of reporting from "ultimate outcomes" to "intermediate outcomes" or "immediate outcomes" (see the definitions in **Table 1**). For audit offices, shifting the focus from ultimate outcomes to immediate or intermediate outcomes makes reporting on their impact much more practical. This is because it means moving away from trying to determine their long-term contribution to improved accountability or better health for citizens, for example, to determining their impact on specific practices or programs in selected public sector organizations on a shorter time horizon.

Table 1 – Immediate, Intermediate, and Ultimate Outcomes

Term	Definition	Descriptors	Examples (for an Audit Office)
Immediate outcome	An outcome that is directly attributable to a policy, program, or initiative's outputs. In terms of time frame, these are short-term outcomes.	These outcomes are often at the level of an increase in awareness of a target population.	Parliament is better informed.
Intermediate outcome	An outcome that is expected to logically occur once one or more immediate outcomes have been achieved. In terms of time frame, these are medium-term outcomes.	These outcomes are often at the change of behaviour level among a target population.	Parliament holds the government to account. Audited organizations take steps to implement audit recommendations.
Ultimate outcome	The highest-level outcome that can be reasonably attributed to a policy, program, or initiative in a causal manner, and results from one or more intermediate outcomes having been achieved. These outcomes usually represent the *raison d'être* of a policy, program, or initiative. They are long-term outcomes.	These outcomes represent a change of state in a target population.	The audit office contributes to better-managed government programs and better accountability to Parliament.

Source: adapted from the Government of Canada's *Results-Based Management Lexicon* (2015) and from the Office of the Auditor General of Canada's 2003 *Performance Report*

By focusing on intermediate outcomes, audit institutions can assess the impact of a particular audit on one or a few selected organizations. As will be discussed in Part 2 of this paper, this explains why the most common indicators of impact used by audit institutions are related to the implementation rates of audit recommendations. Similarly, the focus of most academic studies on the impact of performance audits has been at the level of individual audits and intermediate outcomes.

In addition, it is possible to aggregate some of the data on the impact of individual audits and to present the results annually. Doing so can provide a broader (but not necessarily complete) view of impact. One example of success at this level is that some audit offices have been able to track the annual financial impact (savings or additional revenues) of their performance audits on the public purse. (See Reporting Financial Impacts for more information.)

Some audit offices have been able to track the financial impact of their performance audits.

In summary, since the 1990s, many audit institutions in Canada and abroad have demonstrated that it is possible to go beyond reporting on outputs alone and to provide some information on outcomes as well, especially intermediate outcomes. However, reporting on the impact of performance audits is still an evolving practice and challenges remain, as will be discussed in more detail in Part 2.

Are There Negative Audit Impacts?

This discussion paper has defined impact as a change resulting from a performance audit. While it is generally assumed that this change will be positive, it is fair (and important) to ask whether sometimes negative change can also result from an audit.

Of course, auditors are aware that the audit process requires audited organizations to spend time and resources providing all the information requested by audit teams. Auditors are also aware that implementing their recommendations will have a cost for the auditees. However, through discussions with the auditees, auditors strive to formulate recommendations whose benefits (financial and non-financial) would outweigh the costs.

But, beyond this obvious effect, can there be negative impacts? The academic literature on performance auditing has discussed this question many times (e.g., Leeuw, 2011) and has proposed several theoretical negative effects:

- Ossification: an excessive attention on formal adherence to rules and standards, which ultimately inhibits innovation within an organization and causes it to ossify.
- Tunnel vision: an excessive emphasis on activities whose results can be easily quantified and measured, at the expense of activities whose results are not so easily quantified.
- Short-termism: an excessive short-term focus on achieving good results against performance indicators valued by auditors at the expense of keeping sight on long-term objectives.
- Sub-optimization: excessive efforts and resources spent on improving a system at the expense of other systems within an organization.
- Window dressing: creating systems, procedures, and so on, merely to keep auditors satisfied, while behind this formal façade things continue as before.

- Reduced motivation: auditees showing a reduced commitment to their organization following a critical performance audit.

This literature on negative effects has essentially focused on how audits affect the audited organizations, and, to a limited extent, the public servants directly involved in the audits. Whether performance audits can have negative impacts for public service users or on citizens in general does not appear to have been studied in detail.

While few academic studies on the negative effects of audits on auditees are available, the existing ones tend to demonstrate that the theory on negative effects is rarely supported by the experience of auditees. For example, the research of Desmedt et al. (2017) in Belgium has found that the surveyed auditees "almost unanimously confirmed that performance audits did not have negative consequences" in their organization. Similarly, the research of Morin (2004, 2008, 2014) in Canada asserts that negative effects are rare and marginal.

Still, negative impacts cannot be discounted outright, and some rare cases have been noted in the literature. For example, Katrien Weets (2011), in her research on three performance audits in the Dutch city of Rotterdam, found that the auditees surveyed for one of the audits had reported the appearance of ossification and tunnel vision. More studies on the negative impacts of performance audits are needed to clarify the relative frequency and importance of this phenomenon.

What Factors Influence Audit Impact?

Over the years, many researchers have studied the factors that can influence the impact of performance audits and have developed several models that identify and categorize these factors in various ways (for examples, see Sterck, 2007; Van Loocke and Put, 2011; Näsström and Persson, 2016). **Table 2** presents a simplified model in which factors that can influence the impact of a performance audit are divided in two categories: internal factors, which relate to the audit process and on which auditors have much control, and external factors, which are characteristics of the social and political environment in which auditors work and over which they have only limited influence or no influence at all.

Audit institutions have a high degree of control over factors that relate directly to the audit process itself, such as the selection of audit topics, the expertise and competence of auditors, the auditor–auditee relationship, the quality of audit reports, and the relevance of the audit recommendations. While these factors are generally acknowledged as important by academics, several studies have particularly highlighted the importance of the relationship between auditors and auditees. According to Jane Etverk (2002), the quality of this relationship is crucial in determining whether the audited body will accept an audit's recommendations. Danielle Morin (2004) found that audit teams that demonstrated openness and fluid communications with auditees likely strengthened the impact of their audits. Conversely, if auditors behaved like inquisitors, there was greater risk that their efforts would yield no result. Katrien Weets (2011) similarly found that a lack of empathy for the auditees could be detrimental to an audit team's efforts to drive change through its audit work.

Table 2 – Factors That Can Influence the Impact of a Performance Audit

Internal Factors (Audit Process)	External Factors (Environment)
▪ Audit topic selection ▪ Reputation and credibility of the audit office ▪ Relationships with the auditees ▪ Expertise of the auditors ▪ Quality of the audit reports ▪ Relevance of the audit recommendations ▪ Efforts to disseminate the audit findings ▪ Follow-up mechanisms	▪ Actions and expectations of Parliamentarians ▪ Media and stakeholder engagement ▪ Willingness to make changes within audited organizations; tone at the top ▪ Political will ▪ Timing of the audit ▪ Timing of policy reforms ▪ Other events competing for public attention ▪ Expectations of citizens for change

Conversely, there are two internal factors that have received less attention in the academic literature but that likely play an important role in increasing the impact of performance audits. The first is the presence of follow-up mechanisms and tracking systems to determine whether audit recommendations are implemented on a timely basis. The second factor is the various efforts made by audit offices to disseminate their conclusions and recommendations to a wide audience, using various strategies, including writing in plain language, using social media platforms, and presenting audit findings at conferences and events organized by interested stakeholders. It is logical to think that better communicating audit findings to a larger audience and following up with auditees to track progress made in implementing audit recommendations can potentially increase the impact of performance audits. More research on these two factors could be beneficial for the performance audit community.

The presence of follow-up mechanisms, to determine whether audit recommendations are implemented on a timely basis, can increase the impact of performance audits.

There are also external factors over which audit institutions have little influence. In part, this is because legislative audit offices in the Westminster tradition are not granted enforcement powers to ensure that their recommendations are implemented. Instead, they must rely upon elected officials to hold audited organizations to account. Similarly, audit institutions do not control the media or the political agenda on any given day. There is therefore always a certain element of chance involved in publishing an audit report on a pre-selected date; the context might favour a high impact, or it might not.

In the academic literature, the external factors that have received the most attention are the influence of parliamentarians and media coverage. With regard to parliamentarians, many studies (e.g., Morin, 2008) have recognized that the attention paid by elected officials to performance audit reports can play a crucial role by putting pressure on audited organizations to implement audit recommendations. However, this observation does not appear to be universal; rather, the influence of parliamentarians varies from one jurisdiction to the next. In Belgium, for example, Desmedt at al. (2017) found that the impact of parliamentarians was marginal. This influence can also vary within a single jurisdiction. In Canada, Danielle Morin has found that the influence of parliamentarians could be an important factor (Morin, 2004), but that it cannot always be counted upon (Morin, 2014). In her 2014 study, which covered five provincial legislative audit offices and the Office of the Auditor General of Canada, only 36 out of 87 respondents (41 percent) stated that their audit had been studied by a parliamentary committee.

The media, through their influence on audited organizations or on parliamentarians, also have the capacity, in theory, to push auditees to implement performance audit recommendations. However, a number of studies have cast doubt on the role of the media as a strong factor driving audit impact. For example, Danielle Morin (2004, 2014) has found that the influence of the media was felt only weakly by auditees in Canada. Similarly, Desmedt et al. (2017) found that this influence was marginal in Belgium. In Norway, Kristin Reichborn-Kjennerud (2014b) has also found that the media were interested in only a few audit reports and that audits did not play an important role in media debates. However, a 2008 study by Danielle Morin found that when an audit received media coverage, auditees tended to take corrective measures more rapidly. Also, a 2015 study by Raudla et al. in Estonia noted that recommendations were more likely to be implemented when the media created a political debate over an audited issue, thereby prompting parliamentarians to play a more active oversight role. The influence of the media therefore appears to vary significantly from audit to audit and may be felt directly by the audited organizations or indirectly through the intervention of parliamentarians.

1.3 The Views of Canadian Performance Auditors on Impact

Section highlights

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

Between September and November 2018, we interviewed 31 senior Canadian performance auditors, active or recently retired, from 16 audit institutions in 13 cities, from Halifax to Victoria. (The list of interviews is in the Acknowledgements section at the end of this discussion paper.) Among other questions, we asked these auditors what "impact" meant to them, what value they saw in performance audits, and what change they had seen happen as a result of their audit work.

The notion of impact was perceived in various ways by interviewees and, in some cases, different perceptions existed within a single audit office. A majority of interviewees saw making a difference as an important objective of their work. For some auditors, this is what motivates them to get up in the morning and go to work; some are explicitly driven by the belief that their work can lead to important policy changes. Others define making a difference as helping government do a better job, getting buy-in from management, and influencing actions toward positive change. Some auditors also believe that they can make a difference by educating the public, shedding light on unknown situations, busting myths, and fostering conversations and public debates about important questions.

The auditors we interviewed generally recognized their dual role of providing assurance and influencing change. While a majority thought that their role of influencer was more important to them as individuals, a few auditors said they were more driven by their roles as providers of assurance. These latter auditors saw their role as pointing out where there are problems in the public sector and then letting Parliamentarians and the public play their own role in holding the government to account.

Notwithstanding their views on their role, all the auditors we interviewed agreed that audits often bring attention to issues that were either unknown or ignored for too long and create an opportunity for debate to take place and change to happen. Many auditors described a performance audit as a catalyst that can make change happen faster. Reflecting back on their careers, some interviewees agreed that change might have happened eventually without any audits, but they were convinced that audits definitely accelerated the pace of change and, in cases where auditees were not aware of the problems raised by auditors, were crucial in making change happen.

The interviewees all believed that performance audits can have impacts and they could all point to audits their offices had produced that had played a key role in improving various government policies, programs, and services. They knew that their office can positively influence how government works but were also aware that it is often difficult to measure and document audit impact. Some interviewees also acknowledged that sometimes an audit will have no impact at all—because auditees have other priorities, or because of a lack of political will, lack of resources, bad timing, or other reasons.

The senior auditors we talked to generally agreed that some change often happens during an audit, before the report is completed. In some cases, when an audit is announced well before it starts, change takes place before the audit work begins, as the auditees strive to "clean up their house" before the auditors arrive. When there is sufficient documentation, Canadian audit offices note recent improvements in their audit reports or, alternatively, let the auditees mention them in their official response to an audit.

The interviewees recognized that media reports about performance audits could increase an audit's impact but noted that media coverage was not a prerequisite for impact to happen and that media coverage did not guarantee a larger impact. (Some audits have received much media attention, but little progress was made in addressing the identified issues nonetheless.) Several auditors said that change within departments and agencies could take place without media coverage and that, for this reason, attracting media attention was not a high priority.

A few interviewees also noted that change can be very slow to happen (it may only materialize many years after an audit) and that, in some cases, important but complex change takes place over time without most people, or the media, paying much attention to it.

Finally, interviewees noted that Public Accounts Committees (in federal and provincial jurisdictions) can increase the impact of performance audits when they review performance audit reports in a non-partisan manner and hold the government to account for implementing audit recommendations. Similarly, at the municipal level, audit committees can help increase the impact of performance audits by having the municipal auditor general speak to each audit report and by subsequently following up with municipal management to determine what steps are being taken to address the known issues and the audit recommendations.

Part 2 – How to Measure and Report Impact?

2.1 How Audit Institutions Measure and Report Their Impact

Section highlights

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

Considering that legislative audit offices are funded by taxpayers to fulfill their mandate, it is only fair to expect them to report on their performance just like any other public sector organization. This expectation is often formalized in legislation or in administrative policies and is also supported by INTOSAI's standards, which state that audit institutions have a responsibility to demonstrate their ongoing relevance to citizens, Parliament, and other stakeholders.[9]

Reporting on performance can imply reporting on outputs, on outcomes, or both. However, for an audit office to report on the impact of its performance audits requires more emphasis on outcomes than on outputs. This is because the number of reports an audit office produces in a year (its output) may influence its impact, but it does not in itself provide information on what that impact is (the outcome).

As explained in Can Impact Be Measured?, audit institutions tend to report on intermediate outcomes much more than on ultimate outcomes. This happens because reporting on ultimate outcomes is often not practical considering the difficulties involved in separating the contributions made by audit offices to ultimate outcomes from the contributions made by other stakeholders. In consequence, reporting on impact by audit institutions tends to focus on the impact of individual audits and to strongly emphasize recommendation implementation rates. What information exists on the impact of audit offices can usually be found in their annual report on their operations or in a report focused on the follow-up of previous recommendations. This information can be quantitative or qualitative.

This section provides an overview of the performance indicators most often used by audit offices to report on the impact of their performance audits. It also discusses the use of qualitative reporting techniques for the same purpose.

[9] INTOSAI, ISSAI 12, Value and Benefits of SAIs – Making a Difference in the Life of Citizens

The Usual Performance Indicators

A review of recent annual performance reports from audit institutions in several countries and of the academic literature published over the last 25 years on performance reporting by legislative audit offices reveals that audit institutions generally use a small set of indicators. In addition, these indicators have varied little over time and across jurisdictions. (There are exceptions: some offices do not report at all on their impact, only on their outputs.)

The quantitative performance information in these reports generally falls into one of the following categories:

- **Statistics on audit recommendations.** This can include the percentage of recommendations accepted by the government, the percentage of recommendations implemented by the government, and the percentage of recommendations endorsed by the Public Accounts Committee. For implemented recommendations, each office usually defines a period of time, such as the percentage of recommendations implemented three years after the release of the audit report. The information reported using these indicators can come with different levels of assurance (audit level, review level, or non-audited), depending on each audit office's practices.
- **Financial impact estimates.** These are estimates of savings and additional revenues generated by the implementation of audit recommendations. This information can be presented as the total financial impact achieved (or that will be achieved) as a result of recommendations made over a specific period. It can also be presented as a ratio of estimated savings and additional revenues vs. the cost of audit operations or office operations over the same period. Using such a ratio allows audit offices to claim that, for each dollar invested in their office, x dollars of financial impact are generated.
- **Surveys of elected officials.** Surveys of elected officials, including or limited to members of Public Accounts Committees, seek their perception about different aspects of performance audits and their satisfaction with the work of the audit office. Common questions include whether elected officials think that recent performance audits examined relevant and significant topics and whether the audits had helped them to hold government accountable and to recommend improvements to government operations. The survey results are presented as aggregate quantitative data.
- **PAC reviews of audit reports.** These are statistics on the number of audit reports reviewed by the Public Accounts Committee during the past fiscal year. This information can be stated as a percentage: the proportion of audit reports reviewed by the Public Accounts Committee over a year.
- **Post-audit surveys of auditees.** These surveys include questions on the perception of auditees of the value added by performance audits and their satisfaction with different aspects of the audit process. The results of auditee surveys are compiled over a year and presented as aggregate quantitative data, such as the proportion of auditees who think audits added value in their organization. The surveys can be administered at the end of an audit or after a determined period of time has elapsed (six months, a year, or more).
- **Media report statistics.** These are statistics on the number of media reports related to published performance audits over a given period. This can be the number of times an audit report was

covered in newspaper articles or on news programs or the number of interviews given by the Auditor General for a given report.

- **Website visit statistics.** These are statistics on website visits and audit report downloads. Audit offices gather these statistics to document how many times performance audit reports are downloaded or consulted on their website over a given period.

These performance indicators are not used by all audit institutions and some are more popular than others. For example, a majority of audit offices use one or more indicators about audit recommendations. Many audit offices also use surveys of auditees and/or elected officials. By contrast, very few offices report on their financial impact. (The National Audit Office of the United Kingdom and the United States Government Accountability Office are examples of national audit offices that have adopted this practice.)

Not all performance indicators are used by all audit institutions and some are more popular than others.

These indicators also differ in their usefulness or value. While they all provide performance information that goes beyond outputs, in some cases the link to impacts is much clearer than for others. The following is a description of the qualities and limitations of the usual quantitative indicators listed above.

Statistics on Audit Recommendations

The two most common indicators about audit recommendations are the percentage of recommendations accepted by auditees and the percentage of recommendations implemented by auditees over a defined period of time.

Of these two indicators, the one about implemented recommendations is the most informative because it is about actions that have actually been taken, whereas the indicator about accepted recommendations only relates to the *intention* of taking actions.

As many performance auditors and academic researchers have noted, the proportion of recommendations that are accepted is often very high—100 percent is not rare—because political pressure forces auditees to accept all recommendations to preserve appearances and reassure the public that all will be well. However, in practice, things often end differently, and implementation rates are often well below 100 percent. This situation was decried by the Auditor General of Canada in June 2018 on a national radio program: "We always get the department agreeing to our recommendations but then somehow we come back five years later, 10 years later and we find the same problems. It almost is like the departments are trying to make our recommendations and our reports go away by saying they agree with our recommendations."[10]

"We always get the department agreeing to our recommendations but then somehow we come back five years later, 10 years later and we find the same problems."

[10] Quoted by Elise von Scheel, CBC News, 1 June 1 2018, "Auditor General to public service: stop ignoring my reports"

Because it is about actions taken as a result of audit recommendations, the second indicator clearly establishes a link between the auditors and the impact of their audits. As such, this indicator meets the basic requirement for a good indicator of impact. However, a review of the literature on the reporting of audit impacts shows that this indicator—the most used by legislative audit institutions—nonetheless suffers from a number of limitations in the eyes of academics:

- By focusing on post-audit actions, the indicator captures only changes that took place after the publication of the audit report and so ignores all the changes that may have taken place during the audit process.
- Only instrumental changes (resulting from modification to processes, policies, programs, and so on) are captured; conceptual changes (learning and modified attitudes, behaviours, and outlook) are ignored.
- Readers do not know whether the implemented recommendations were significant ones or whether those that were not implemented were the most significant ones. (Also, readers often do not know why some recommendations were not implemented.)
- Similarly, because the data is often aggregated and presented as a single number, readers are not left with a clear picture of what actual change took place, only with the knowledge that change did take place.
- Finally, implementing recommendations does not necessarily result in an improvement if recommendations do not address the root causes of observed problems.

Another factor to consider is whether the data used to report on this indicator is self-reported, reviewed, or audited. The less auditors have verified the data provided by auditees on their performance in implementing audit recommendations, the less reliable the indicator will be because it is well known that auditees tend to overestimate their progress.

For all the above reasons, academic researchers generally consider that reporting on the percentage of implemented recommendations is a limited means of reporting on the impact of performance audits; in their opinion, this indicator provides an incomplete and imperfect picture (Lonsdale, 1999; Morin, 2001, 2014; Weets, 2008; Van Loocke and Put, 2011; Desmedt et al., 2017).

Savings Estimates

Estimates of the one-time and recurrent savings (or additional revenues) that result from implementing audit recommendations are an effective indicator of the financial impact of performance audits because it is often possible to directly link cause (audit recommendations implemented by auditees) and effect (savings or additional revenues).[11] However, for the reported numbers to be valid, some other conditions must be met:

- A consistent methodology for calculating savings must be established and adhered to.
- The calculations must deduct the cost of implementing the recommendations.
- The estimates should be conservative. They should include only financial benefits that have been realized (e.g., one-time savings) and that have a high likelihood of being maintained over several

[11] Estimates of financial impact may capture only a subset of all the savings that may result from audits. For example, it may not be possible to measure the savings that may result from the better mitigation of risks in the future (i.e., avoided adverse events). In this sense, estimates of financial impact can be said to be conservative.

years (e.g., recurrent savings). Financial benefits that are only potential should not be included in the calculations.

- The estimates should be validated by the audited organizations. Ideally, they should also be externally validated.
- The budget of the audited organization should be reduced by the identified amount within a reasonable time period (i.e., three years or less).

This indicator has several advantages. It is easy to understand and to communicate to elected officials and to the public. It provides a single unit of measure that can compare the financial impact of different audits. And, when added up and presented annually, savings can be compared with an audit office's operational expense to demonstrate the value of audit work as a whole. For example, in 2017, the National Audit Office of the United Kingdom declared that every pound sterling invested in its operations resulted in £11 of savings for the government.[12] For the period 2014 to 2018, the Office of the Auditor General for the City of Toronto reported a return of $11.70 for every dollar invested in its operations.[13] These numbers enable these audit offices[14] to demonstrate their value in concrete terms and to support eventual requests for additional funds with reasonable assurance that additional value would be obtained.

> Estimates of financial impacts are easy to understand and to communicate to elected officials and to the public, but they only tell one part of the story.

However, this financial indicator also has limitations. Because of its nature, it only informs on one aspect of impact—the financial impact. Performance audits can also lead to positive changes in the public sector that are not measured in terms of money; changes can often be measured in terms of increased efficiency, better service, safer communities, and so on. Therefore, using a financial indicator cannot provide a full picture of the impact of performance audits.

Using this financial indicator can also lead to a bias in audit selection if auditors are not careful. This can happen if auditors preferentially select audits that they are confident will generate savings or additional revenues for the government, neglecting other audits where non-financial benefits could also be significant. Following a risk-based audit selection process is the best way to ensure that audits are selected in an objective and consistent manner, without favouring financial impact over other types of impact. (For more information on measuring financial impacts, see Reporting Financial Impacts.)

Surveys of Elected Officials

Legislative performance audits are intended to provide independent, reliable information to parliamentarians that they can then use to hold the government accountable for its performance. When a Public Accounts Committee reviews a performance audit and requires a government department to produce an action plan to implement audit recommendations, it has taken a key step leading to change. While the audit has not yet achieved an intermediate outcome (improvement of a policy, program, or service), one can say that it has

[12] National Audit Office of the United Kingdom, Annual Report and Accounts 2017–18, p. 36
[13] Auditor General's Office, City of Toronto, 2018 Annual Report, p. i
[14] There are a few other examples, including the Government Accountability Office of the United States of America.

achieved an immediate outcome (holding government to account). As such, statistics from surveys of elected officials can be relevant indicators of audit impact, but only if they provide information on the usefulness of performance audits in helping elected officials to exercise their accountability function. However, because surveys capture subjective opinions and perceptions, and because it is rare to obtain responses from everyone in a selected population, they may not always accurately portray objective reality.

PAC Reviews of Audit Reports

Some audit offices provide statistics on how many of their performance audit reports have been reviewed by the Public Accounts Committee in a given year. This indicator can be used as a measure of a PAC's interest in an audit office's work or as a measure of the audit office's usefulness to the PAC. However, this indicator does not establish a clear causality link between the audits and their impact on public sector programs and services. For this reason, this indicator can provide information only on immediate outcomes (holding government to account), just like with surveys of elected officials. The intermediate outcomes (improvement of a policy, program, or service) may depend to some extent on the PAC's effectiveness, such as whether the PAC requires action plans from the auditees and follows up regularly on progress in implementing these plans. But the intermediate outcomes may also depend on many other factors, such as auditee management, media pressure, political and economic context, and Auditor General follow-up processes.

Post-Audit Surveys of Auditees

Ultimately, auditees are responsible for acting on the findings of a performance audit and improving their performance. Auditees are therefore in a good position to assess whether a performance audit had a positive impact on government operations. Surveying auditees after performance audits is thus a good way to obtain relevant information on the impact of performance audits. To be useful, these surveys must include explicit questions about the value added by audits and the change that they helped to bring about. Also, audit institutions will be more likely to collect relevant information on audit impacts if the auditees are given a reasonable period of time to implement audit recommendations before the survey is administered. In addition, this type of survey can be used to assess whether audits had impacts (positive or negative) in terms of changed attitudes, behaviours, or culture within the audited organizations. (Impact of this kind, because it is less tangible than changes in procedures or policies, can be difficult to assess by other means.) Finally, as with any survey, the usefulness of the information collected by post-audit surveys depends on the quality of their design, on their response rate, and on the objectivity of the responses. On this last point, some auditees may be overly negative in their responses because they hold a grudge toward the auditors or they may provide responses that are too positive because they feel pressured to do so in their work environment.

Media Report Statistics

Most audit offices collect statistics on their media impact; that is, how often their work is covered in news media. These statistics can be useful to identify the audits that attracted the most media attention and to judge whether an audit office is effectively communicating its messages. However, because no clear correlation has yet been established between an audit's media coverage and the likelihood of auditees to implement recommendations (as noted in What Factors Influence Audit Impact?), this indicator cannot confidently be relied on to provide valuable information on an audit's impact.

Website Visit Statistics

A few audit offices track and report the annual number of visits made to their websites and the number of times their performance audit reports were downloaded. While these statistics can be useful to demonstrate an increasing interest in performance audits over time, they do not provide information on the audits' impact. It is possible that increasing interest in audits may result in additional pressure on the government to implement audit recommendations, but this is conjectural. Because there is no clear link between cause (interest in audits) and effect (change resulting from recommendation implementation or from learning processes), this indicator is not valid for measuring audit impact.

Reporting on Impact Using Qualitative Information

Using indicators to measure the impact of performance audits and reporting quantitative information can help audit offices demonstrate their continued value and relevance, but it is not the only way. There are other, complementary methods to report qualitative performance information that provide a broader picture of performance audit impact.

Instead of relying on numbers and statistics, narrative techniques present information on impact in a short, clear text that highlights the main changes or actions that resulted from one or more performance audits. One approach, adopted by the National Audit Office (NAO) of the United Kingdom, is to include a series of short case studies in an annual performance report. An example of this approach is in the text box below.

Case study: NAO report on the higher education market

"Our work has directly influenced the ongoing development of the new regulatory regime, as well as contributing to the wider debate that culminated, in February 2018, with the government launching a review of post-18 education funding. Our report also had influence in Parliament: it informed the Education Select Committee's inquiry into value for money in higher education, and the Treasury Select Committee drew directly on our study findings in its report on student loans, concluding that market mechanisms, in and of themselves, are not sufficient to drive meaningful improvements in quality."

Source: *Annual Report and Accounts 2017–18*, National Audit Office of the United Kingdom, p. 34

Short summaries of performance audits and of the change that they fostered can complement quantitative information because they present real cases that concretely illustrate how audits can make a difference in citizens' lives—something that aggregated numbers in tables do not convey nearly as well.

Of course, not all audits have easily identifiable impacts, and some are therefore better suited to be illustrative examples. Audit offices can demonstrate their value without having to present an impact summary for all their audits, but rather by highlighting examples that demonstrate that audits can lead to changes in policy, improved service quality, increased safety, better governance and oversight, or other non-quantifiable impacts.

Short summaries of qualitative changes fostered by performance audits can show how they make a difference in citizens' lives.

In presenting case studies or narratives on the impact of their audits, offices need to deal with questions of attribution and plausibility. Of course, changes that result from implementing audit recommendations cannot solely be attributed to audit offices; the actions are taken by the auditees and supported by the government. Public Accounts Committees can also play a role in making change happen. Audit institutions must therefore be careful how they phrase their narratives. The goal should be to demonstrate their influence and value, not to take credit away from others.

It may not be possible, however, to demonstrate the exact extent or importance of the influence of an audit in bringing about a specific change. Data may not always be complete, or it may not be easy to clearly separate one influencing factor from another. In such cases, audit institutions may need to decide whether they can base their reporting on the concept of plausibility, as opposed to assurance. If a plausible argument cannot be made to clearly link an audit and observed changes, then it is not possible to claim any impact.

2.2 How Canadian Audit Institutions Report Their Impact

Section highlights

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

To determine how municipal, provincial, and federal audit institutions in Canada report on the impact of their performance audits, we reviewed the latest annual report available (from 2017 and 2018) for each of 22 audit institutions:

- the Auditor General for Local Government (British Columbia)
- 10 municipal audit offices: Toronto, Montréal, City of Québec, Ottawa, Laval, Halifax Regional Municipality, Winnipeg, Calgary, Edmonton, and Vancouver
- 10 provincial audit offices: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Newfoundland and Labrador, New Brunswick, Nova Scotia, and Prince Edward Island
- the Office of the Auditor General of Canada.

In this section, these audit institutions are treated as two separate groups:

- members of the Canadian Council of Legislative Auditors (CCOLA), which include the 10 provincial offices and the Office of the Auditor General of Canada and

- the offices with a local focus, which includes the 10 municipal offices and the Auditor General for Local Government in British Columbia.

For each audit office, the information on performance was found in:

- an annual report on operations (stand-alone or part of a larger annual report that also includes audit reports); and/or
- a report on the status of audit recommendations (stand-alone or part of a larger report that also includes new audit reports).

When necessary, we obtained additional information on an office's reporting practices by interviewing individuals familiar with these practices.

Performance Indicators

In both groups, the most commonly used performance indicator is the percentage of audit recommendations *implemented* by the auditees. In the CCOLA group, 9 out of 11 offices use this indicator, with reported results that vary between 40 and 97 percent. (The methodologies differ in some respects, so the numbers are not directly comparable.) One more office reports on the percentage of recommendations *accepted* by the auditees and provides a breakdown of outstanding recommendations per ministry.

Among the audit offices with a local focus, the most commonly used performance indicator is also the percentage of audit recommendations *implemented* by the auditees. In this group, 8 out of 11 offices use this indicator and another one was planning to start using it in its next report.[15] The reported rates of recommendation implementation vary between 61 and 91 percent (the methodologies differ in some respects). Four offices report on the percentage of *accepted* recommendations (in some cases, this is in addition to reporting on the percentage of *implemented* recommendations).

> In the CCOLA group, 9 out of 11 offices report on the percentage of audit recommendations implemented by the auditees.

In the CCOLA group, the second most-used indicator is the result of surveys of elected officials. About half (5 of 11) of the offices in this group use this indicator. Four audit offices also report the results of post-audit surveys of auditees. In addition, three offices provide information on the number or percentage of their performance audit reports that were reviewed by the Public Accounts Committee (or another legislative committee) over the previous fiscal year.

Unlike offices in the CCOLA group, audit offices with a local focus do not report to a legislative assembly or a Parliament. Their reporting arrangements vary; some report to a city council, some to an audit committee, and others to a city manager. Of these 11 offices, one reports the results of post-audit surveys of auditees. Because the practice of formally surveying audit committee members or councillors about their satisfaction

[15] Of the two remaining offices, one does provide the information necessary to calculate a percentage but does not report the percentage explicitly. The other office provides information on the number of recommendations outstanding, but no information on the number of recommendations already implemented for a given period; a percentage therefore cannot be calculated.

with the work of auditors is not established at the municipal level, no information is reported on this. (Face-to-face discussion is a more common method of obtaining feedback for audit offices with a local focus.)

Among the CCOLA group, no office reports on the financial impact of its performance audits. Among the audit offices with a local focus, only the Auditor General for the City of Toronto reports this information. This municipal audit institution has been required by Toronto's Municipal Code to report this information since 2004. For the period 2014 to 2018, the Auditor General reported that the implementation of audit recommendations by auditees had resulted in one-time and projected five-year savings of $303.7 million. For every dollar invested in this audit institution over this period, a return of $11.70 was generated.

Of the 22 audit institutions included in our research scope, only one reported information on the number of visits to its website and on the number of audit report downloads.

Finally, qualitative reporting using narrative techniques or case studies is not a well-developed practice among any of the audit institutions in our research scope.

Current Trends and Practices

Our review of the reporting practices of 22 Canadian public audit institutions has shown that, in general, these offices:

- Focus their reporting on audit impact on statistics related to rates of recommendation implementation. This data is often presented at an aggregate level, but some offices also provide this information for each department they audit.
- Provide some information on the perspective of elected officials and of auditees on the value and impact of performance audits. While this practice is more common for provincial and federal audit institutions than for municipal ones, it is not generalized at any level of government.
- Report little or no information on the financial impact of performance audits (except the Auditor General for the City of Toronto).
- Report little or no qualitative information on the impact of their performance audits.

> Some Canadian audit institutions provide information on the views of elected officials and of auditees on the value and impact of performance audits.

Overall, readers interested in the impact of audit institutions can find some information on whether recommendations are being implemented and whether the main stakeholders (elected officials and auditees) see value in the work of performance auditors. However, readers can rarely find more detailed information, whether on the financial impact of audits, the impact of specific audits, or the rates of recommendation implementation in specific departments and agencies. Essentially, readers are told that audit institutions have impacts, but cannot form a precise understanding of what this impact is in concrete terms.

As we reviewed the academic literature, interviewed auditors in many Canadian audit institutions, and searched through older annual reports, it became apparent during our research that, while some change took place in reporting practices over the years, this change had not been revolutionary nor consistent in direction over time. Often, a practice was adopted in an office for some time, then eventually faded away. Sometimes it was revived later on in another context or another office. For example, one office used to report qualitative information (narratives) on the impact of specific audits, but not anymore. Another office used to report the financial impacts of some audits, but not anymore. Another provided information on rates of recommendation implementation but has stopped doing so. And several audit institutions used to survey elected officials but have since stopped because of the low response rates they obtained in these surveys. In some cases, like in this last one, a practice was ended because of the limited quantity and/or quality of information available for reporting. In other cases, changing priorities and reallocation of resources justified the decision.

Net progress has been made in reporting on impact over the last two decades or so, but efforts in this direction appear to have been uneven. Looking at this situation, it seems reasonable to wonder why this has been so and why innovations in this field have been rather few and far between.

A number of possible answers to these questions came up during the interviews we conducted as part of the research for this paper. To start with, there has been a general lack of demand from key stakeholders for more information on the impact of performance audits. Academic researchers may be hungry for this information, but elected officials and the public have not been pressing auditors for it. The only notable exception has been the City of Toronto's audit committee, which in 2004 requested the Auditor General to "report actual and potential dollar savings, at risk dollars, and the impact of non-financial benefits to the City of Toronto resulting from the Office's work." The Toronto Municipal Code (2006) requires the Auditor General to "report annually to City Council on the activities of the Office and savings achieved." This requirement explains in large part why this audit office is the only one in Canada to regularly report on the financial impacts of its performance audits.

Net progress has been made in reporting impact over the last two decades, but efforts in this direction appear to have been uneven.

Despite the lack of demand, the leaders and staff of audit institutions we interviewed were generally interested in improving their reporting on impacts.

The other reasons that may explain the erratic evolution of reporting on audit impacts have to do with priorities, resources, the availability and quality of information, and organizational culture.

Interviewees often mentioned that increasing efforts to monitor the impact of performance audits involved a trade-off between allocating resources to new audits and allocating resources to monitoring and following up on previous audits. Public audit institutions have limited resources and ultimately this decision depends on the priorities of each auditor general. Resources also affect the capacity of audit institutions to conduct research on and develop new means of monitoring and reporting audit impacts; smaller audit offices usually do not have a dedicated research or methodology team that can undertake such work.

The limited availability or quality of information on audit impact is another constraint frequently cited by interviewees. For example, most of them expressed reluctance to report on the financial impact of their audits because they felt that in many cases this information would be very difficult to obtain or to validate.

Finally, organizational culture may also play a role in slowing the evolution of practices for reporting on audit impact. Interviewees made many comments about impact attribution and the legitimacy of claiming credits for actions that are ultimately taken by departments and agencies, not by audit institutions.

2.3 How to Improve the Reporting of Audit Impact

Section highlights

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

Many Canadian audit institutions recognize that they could make improvements to how they measure and report the impact of their performance audits. Indeed, several offices were actively working on this challenge when this paper was being prepared.

The observations in section 2.2 showed that Canadian audit institutions rely on few performance indicators, rarely report financial impact information, and provide little qualitative information on audit impacts. This suggests that these audit offices have opportunities to broaden their reporting by using different types of indicators and sources of information.

The general advice on performance reporting provided in a 2004 paper written by John Mayne, a former Principal at the Office of the Auditor General of Canada, is very relevant here:

> *"It is likely that no single piece of evidence gathered will on its own be enough to build a credible case concerning a result achieved or a contribution made by a program. … Although no one piece of evidence may be very convincing, a larger set of different and complementary evidence can become quite convincing. It is the totality of the evidence gathered – some of it strong, some perhaps rather weak – that builds a credible*

performance story. The measurement strategy used ought to anticipate the need for multiple sources of data, information and analysis." (Mayne, 2004, p. 51)

"The measurement strategy used ought to anticipate the need for multiple sources of data, information and analysis."

By diversifying the indicators they use and providing more narratives, audit institutions can tell better performance stories and make them more accessible to the public. This can make it easier for elected officials and the public to understand the exact nature of the change auditors are fostering, whether it be cost savings, better service delivery, improved compliance, enhanced governance, increased safety, reduced pollution, lowered risks, strengthened collaboration between government organizations, or reviews of specific policies, programs, or procedures.

The remainder of this section presents some good practices and concrete steps that audit institutions can consider adopting to improve how they measure and report the impact of their performance audits.

Increasing Transparency

In recent years, the operationalization of the open government concept has been facilitated by many information technology innovations. As a result, citizens now have access to more information on government operations and can use this information to hold their governments accountable.

Audit institutions can be part of this trend by making more information publicly available on their websites. For example, most audit offices have a database of audit recommendations and information on implementation status that they use to facilitate their follow-up processes. However, these databases are not usually publicly available. But, with today's technology, some or all the information they contain could be shared online as a source of information for citizens to follow the progress of specific departments or check the implementation status of a specific audit's recommendations. The Office of the City Auditor for the City of San José, California, did exactly that early in 2018. With the help of interns and the Microsoft Power BI software, this small audit office successfully developed an Access database, which it posted online as an Interactive Dashboard of Open Audit Recommendations that enables users to rapidly find information on the status of any open audit recommendation. (The information is provided by departments and reviewed by auditors.) Using this inspiration and their available resources, larger audit offices could no doubt imitate and build on this first model.

Other transparency improvements can be made without new technologies. Sometimes, increasing transparency is simply about making information easier to find in annual reports. For example, some audit institutions provide information on open or implemented recommendations by department or by audit. There may be opportunities to aggregate this information to present an overall measure of the rate of implementation for a given year (in addition to what is already being reported).

Another option for increasing transparency would be to publish on the Web the action plans that auditees provide to audit institutions and Public Accounts Committees to explain how they intend to implement the audit recommendations aimed at their organizations. Having this information would help interested parties to track progress and to hold the government accountable for its commitments.

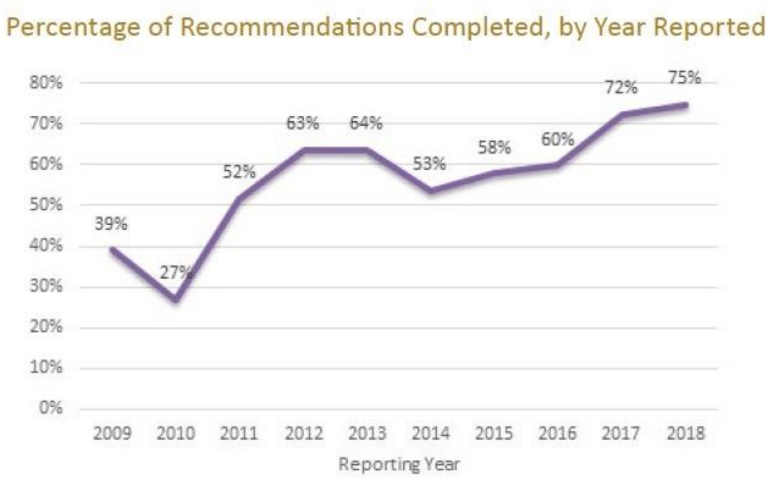
Finally, performance reporting allows audit institutions to describe their performance objectively, including areas for improvement. Should unintended or negative impacts result from a performance audit, this too can be reported and adequately explained.

Improving Information Presentation

Reporting can also be improved with charts and diagrams to make information easier to understand.

Reporting can also be improved by presenting information in different ways. Using charts, graphs, and diagrams can make quantitative information easier to understand, show the steps of a process, or make logical links between elements more explicit. In the example in **Figure 2**, the Office of the Auditor General of Nova Scotia used a simple chart to show the rate of implemented recommendations over many years. The positive trend in this chart is clearly visible. Such simple charts can effectively convey performance stories, especially if they are combined with a short text that explains any significant trend or variance in the chart.

Figure 2 – Example of a Line Chart Clearly Showing a Trend



Source: *Follow-up of 2014 and 2015 Recommendations*, Office of the Auditor General of Nova Scotia, 2018, p. 9

Providing more detailed information by increasing the granularity of data can also improve reporting on impact. As already mentioned, some audit institutions go beyond providing information on recommendation implementation at the government-wide level by breaking down this information at the departmental level.

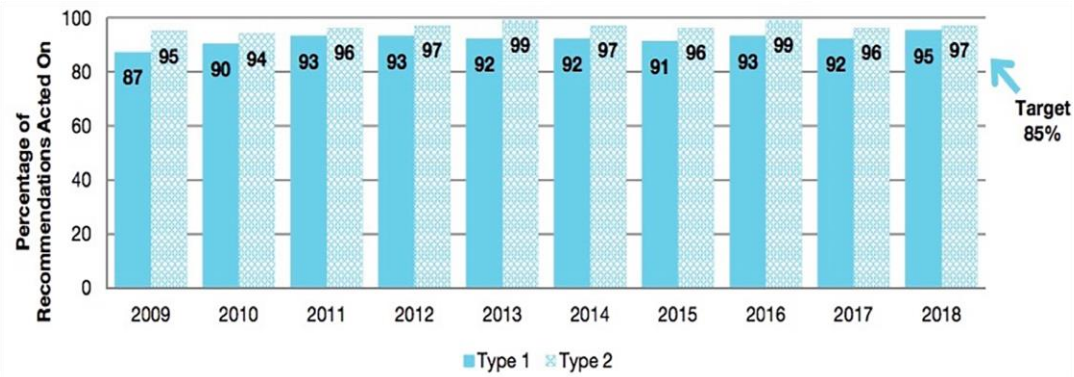
Another example is from the office of the Provincial Auditor of Saskatchewan, which reports annually on two categories of recommendations:

- Type 1 recommendations are less complex, easier to carry out, and can be implemented in one year; these are tracked over a five-year period.

- Type 2 recommendations are more difficult to carry out and may take up to five years to implement; these are tracked over a 10-year period.

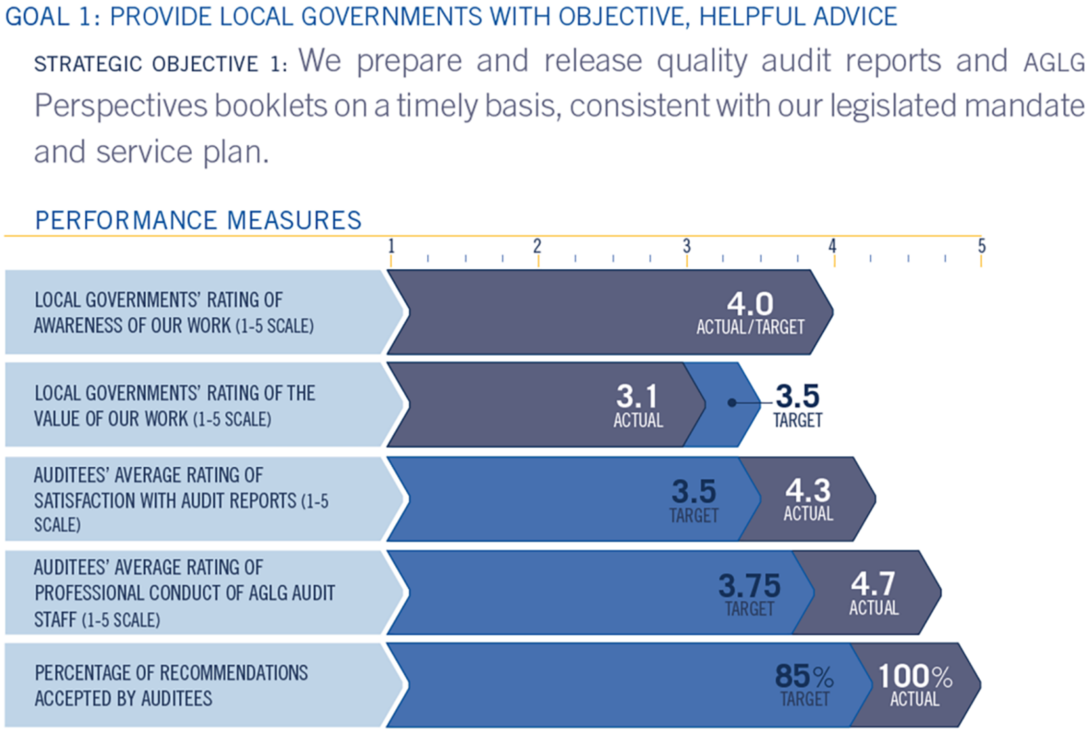
The implementation rates for the two types of recommendations are presented in a single chart, shown in **Figure 3**.

Figure 3 – Example of a Bar Chart Clearly Showing a Comparison



Source: *Annual Report on Operations for the Year Ended March 31, 2018*, Provincial Auditor of Saskatchewan, 2018, p. 16

Figure 4 – Example of a Bar Chart Clearly Showing Results



Source: *Annual Report*, British Columbia Auditor General for Local Government, 2018, p. 9

Charts can also report effectively on several indicators simultaneously. For example, in the chart in **Figure 4**, British Columbia's Auditor General for Local Government reports on various indicators based on the results of surveys of auditees and of local governments, as well as statistics on recommendation implementation.

Finally, other options, such as web-based interactive charts and infographics, are also available to audit institutions to make their reporting on the impact of their performance audits more attractive and engaging to readers.

Reporting Financial Impacts

A small number of audit institutions around the world have adopted reporting financial impacts—including increased revenues, cost avoidance, operating cost reductions, and savings resulting from eliminating inefficiencies—to broaden audit impact reporting.

The Office of the Auditor General for the City of Toronto has been reporting financial impacts for 14 years and the National Audit Office of the United Kingdom (NAO) has done so for over 25 years. With the exception of the City of Toronto, the Canadian community of performance auditors has not adopted this approach so far. A large majority of the auditors we interviewed for this paper stated various reasons for not measuring and reporting financial impacts. These reasons generally fell into three categories:

- Risk: Many interviewees felt that adopting this practice would expose their office to a potential loss of credibility. In their view, the assumptions that would need to be made in calculating financial impact could easily be challenged or could lead to misinterpretation. Some interviewees were also uncomfortable about the perceived need to make predictions or assumptions about the future that could turn out to be wrong.
- Resources: Some interviewees thought that adopting this practice would require too much time and resources from their audit teams. A trade-off would be involved, in which fewer audits would be done in order to free resources to measure and report financial impacts.
- Limited scope: Many interviewees thought that a financial indicator would be too restrictive because it would provide information on only one aspect of audit impact. They felt that this indicator would take the focus away from other non-financial aspects, such as safety and service quality.

As part of the research for this paper, we also interviewed representatives from the NAO and the Office of the Auditor General for the City of Toronto to find out how they managed the process of measuring and reporting the financial impact of their performance audits. In addition, we reviewed the annual reports of these two audit institutions. This research has provided clues as to how these two offices have dealt with the reasons cited by auditors for not measuring and reporting on financial impact.

First of all, it is true that not all audit topics lend themselves to results that can be measured in financial terms. For this reason, neither the NAO nor the Auditor General of Toronto report financial impacts for every audit. They both take great care to select audit topics based on risks (as good practices suggest), not on whether they would be likely to generate financial impact.

It is also true that financial impact is only one aspect of audit impacts and that reporting only on this aspect would be limited. This is why these two offices use additional indicators and use narratives to present qualitative impact information in their annual reports. Both the NAO and the Auditor General of Toronto report on the percentage of recommendations that auditees have implemented. In addition, the NAO's annual report presents a number of case studies and the Auditor General of Toronto's annual report provides short narratives about the non-quantifiable benefits of several of its recent performance audits.

The concern about the risk to an audit office's credibility is also valid. To manage this risk, the NAO and the Auditor General of Toronto have rigorous processes and clear guidance to ensure that their measures of financial impacts can resist challenge. **Table 3** summarizes the principles that support the NAO's process to measure and report financial impacts.

Table 3 – Key Principles That Must Be Met Before Financial Impacts Can Be Claimed by the National Audit Office (NAO) of the United Kingdom

Principles
Causation: There must be a causal link between work conducted by the NAO and the benefit.
Realization: Impacts must have been realized within, or before, the calendar year in which they are reported.
Valuation: Reliable evidence or data support claims, or both, and implementation costs are acknowledged. There must be a robust methodology to value the impact.
Attribution: The proportion of impact claimed should reflect the NAO's degree of contribution to the benefit realized.
Validation: All impact claims need to be validated by the audited body concerned (at sufficiently senior level) and approved internally.
Source: *Annual Report and Accounts 2017–18*, National Audit Office of the United Kingdom, 2018, p. 116

At the NAO, all the financial impacts are identified, discussed, and agreed to with the audited organizations. The results are then reviewed by an internal audit team before being validated by an independent external auditor. Only financial impacts that have been realized can be claimed and sufficient evidence must be provided by the auditees to support the assertions. This rigorous process allows the NAO to feel confident about reporting the financial impacts of its performance audits.

The Auditor General of Toronto also has a structured process to manage the measurement of financial impact. This process is integrated in the annual recommendations follow-up process, follows regular performance audit principles, and requires similar skills. Only realized financial impacts can qualify and all estimates must be discussed and agreed to with the auditees. Realized savings must also be reflected in organizational budgets. For impacts that recur over many years, results only up to five years may be included in the calculations.

Because audit topics vary every year and because the potential for financial impact varies from one audit to another, the total financial impact of performance audits can fluctuate much from year to year. To smooth out this fluctuation, the Auditor General of Toronto presents this information in its annual report based on a rolling five-year period.

This inherent fluctuation may pose a particular difficulty for offices that do only a few performance audits each year. In such cases, it may happen that none of the risk-based audits for a given year are amenable to the measurement of financial impacts, producing a less-than-desirable reportable result of $0 for that year. This situation will be less of a concern for audit institutions that produce more audits each year.

Audit offices that can measure and report on their financial impact benefit from this practice because it helps them to demonstrate their value using a metric that is easily understood by elected officials and the public. This demonstration is made easier still by using the ratio of financial impacts vs. annual operating costs of the audit office, which clearly communicates that each dollar invested in auditing results in x dollars of savings or additional government revenue.

Of course, doing all this has a cost. Measuring and reporting the financial impacts of performance audits requires time and resources. However, at the NAO and the Auditor General of Toronto, these requirements do not appear to be unreasonable (although they might be so for smaller audit institutions). The Auditor General of Toronto has a team of auditors dedicated to the follow-up of audit recommendations; their work includes the measurement of financial impacts. This represents between two and three full-time equivalents (FTEs). Preparing the annual report also requires about a quarter of an FTE. At the NAO, which is a much bigger office, each audit division has its own champion to support audit teams in measuring financial impacts. While some trade-off may be required to make this work possible, the NAO sees this trade-off as worth the benefits. (The Auditor General of Toronto has no choice because it is required by the Municipal Code to report on its financial impact.)

Including Case Studies and Narratives

Case studies or narratives can effectively demonstrate with illustrative examples the different types of impacts that performance audits can have. Narrative information is also better suited than statistics to describe less tangible types of impact, such as changes in attitudes, behaviours, and organizational culture.

However, audit institutions often struggle with this type of reporting because they either do not collect the necessary information or do not feel confident about using it in their annual report. Some useful data could be collected for this purpose when auditors conduct their annual follow-up on the state of implementation of the auditees’ action plan. Another practice that may help audit offices to gather this information is to require their audit teams to set specific value-added expectations during the planning phase of each audit and to report internally on the achievement of these expectations within a year after the audit report is released.

Disclosing Survey Results

Auditees, members of Public Accounts Committees, and members of municipal audit committees have direct contact with performance auditors and are involved in transforming audit recommendations into concrete actions. As such, they are in a good position to judge whether performance audits are valuable and produce impacts. Their opinions are therefore of interest for audit offices looking to demonstrate their value.

> Auditees and members of Public Accounts Committees or of municipal audit committees are in a good position to judge whether performance audits are valuable.

The most common way to obtain these opinions is to conduct post-audit surveys of auditees (usually within a few months after the end of an audit) and annual surveys of Public Accounts Committees. These surveys can include questions on various aspects of the audit process, with questions on the usefulness of audits and the (perceived) extent of their impact being a key survey component. (As noted previously, surveys may be less relevant at the municipal level, where auditors report to small audit committees or councils. In such cases, discussions and direct feedback may be more convenient and effective.)

These surveys have some recognized challenges. Survey fatigue is a complication for surveys of Public Accounts Committee members. Response rates can be quite low among this group, which diminishes the value of the survey results. Other methods, such as interviews or focus groups, may be more effective in such situations.

Surveys of auditees can be affected by some respondents' lack of objectivity. This may particularly happen if an audit report includes negative findings and the auditees feel resentment toward the auditors. Survey responses may be skewed as a result.

Another problem is that post-audit surveys of auditees are often conducted relatively soon after audits are completed. Because of this, they cannot provide information on the impact in an audited organization two or three years later, when recommendations have had more time to be implemented. One solution would be to conduct a further round of surveys later in the follow-up process to obtain more in-depth information on impacts. While this practice does not appear to exist currently in Canadian audit institutions, it has been used by some academic researchers in the past. Of course, one limiting factor is the loss of corporate memory that results from staff turnover in audited organizations over time.

Finally, designing good surveys requires certain specialized skills and some experience, which may not exist in equal measure in all audit institutions. However, considering that all audit offices are looking for similar performance information, they could all benefit from collaborating to develop well-designed surveys that could be used by all offices to collect good information on the impact of their performance audits.

Adopting a Balanced Approach

Audit institutions vary in size and some have more resources than others. They also have different priorities. This necessarily influences the extent to which they monitor and report on the impact of their performance audit work.

There are a number of options for offices that want to improve their reporting on impacts. Based on our research, in **Table 4** we propose 10 good practices to help audit institutions better demonstrate the value and impact of performance audits.

While it may not be possible for all offices to adopt all the practices in **Table 4**, they can consider which ones would enable them to have a balanced approach. Such an approach should tend toward a mix of quantitative and qualitative as well as financial and non-financial information, with both aggregate statistics and illustrative examples. Seeking advice from other offices and sharing knowledge among the Canadian audit community will help each office select and adopt the right practices.

Table 4 – Ten Good Practices That Audit Institutions Can Adopt to Better Demonstrate Their Value and Impact

Practices
1. State the immediate, intermediate, and ultimate outcomes that are expected to result from the office's performance audit practice as a whole. 2. Set value-added objectives for each performance audit during the planning phase. 3. When possible, ensure that pre-report impacts are captured either in the audit report or in the audited organization's response to the audit recommendations. 4. Report annually on the percentage of implemented audit recommendations, using a consistent approach over time. Also provide a breakdown of this information at the departmental level. 5. Report on recommendation implementation trends over the years and explain any variance observed. 6. Increase transparency by making a searchable database of recommendations and their implementation status available online. Specify whether the information in the database has been reviewed or audited by the audit office. 7. Use case studies and narratives based on qualitative information to report notable audit impacts. 8. Where feasible and relevant, report the financial impact of performance audits. 9. Report on the extent to which auditees and the members of Public Accounts Committees see value in performance audits by disclosing the results of post-audit surveys. 10. Conduct surveys of audit impact several years after the completion of selected audits and report the findings of these surveys. Where feasible, link the findings back to the office's expected outcomes for performance audits.

Part 3 – How to Increase Impact?

3.1 The Actions Canadian Audit Institutions Are Taking to Increase Their Impact

Section highlights

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

In Part 1 of this paper, we listed many factors that can influence the impact of a performance audit and made a distinction between the factors that audit institutions can control and those that they cannot (see **Table 2**). The factors that audit offices can control include:

- audit topic selection
- the office's reputation and credibility
- relationships with the auditees
- auditors' expertise
- quality of the audit report
- relevance of the recommendations
- efforts to disseminate the audit findings
- follow-up mechanisms.

During the interviews we conducted for this paper, we asked senior performance auditors how their office was trying to increase the impact of its performance audits and on which of the above factors these efforts focused. The auditors told us about their own office's priorities and initiatives. These were related, for the most part, to four of the above factors: audit topic selection, relationships with the auditees, efforts to disseminate the audit findings, and follow-up mechanisms.

In this part of the paper, we provide an overview of the ideas and opinions we heard from interviewees about how audit offices can increase the impact of their performance audits. The ideas and practices are presented following the phases of the audit process, so the practices related to the audit planning phase are presented first and those related to the follow-up phase are discussed last.

Some of the ideas presented in the following sections are fairly common and generally accepted, while others are not unanimously supported. We hope to stimulate discussions about which ones can be the most effective at increasing the impact of performance audits.

Audit Selection and Audit Planning: Increasing Transparency and Engagement

The preparation and publication of long-term audit plans is becoming more common and that may help audit institutions to increase their impact. By involving more stakeholders from diversified backgrounds in the long-term planning process and by making public the resulting two- or three-year schedule of planned performance audits, the whole process is made more transparent. In addition, there are more opportunities for concerned citizens or citizen organizations to share information with audit offices on topics they are interested in. Audit institutions can use the feedback they receive from government departments, from citizens, and from civil society organizations to adjust and improve their audit plans where relevant. The publication of these long-term audit plans also gives public sector departments plenty of time to seek clarification from audit offices on their intended audit scope and to take proactive actions where warranted to improve their management in the areas selected for audit. As a result, there is a potential for planned performance audits to have an impact even before they begin. There is also a potential for engaging civil society early on and, in so doing, creating an interest that may continue until report publication and even after, as the progress made in implementing audit recommendations is monitored over time.

> Involving more stakeholders in the long-term planning process creates the potential for performance audits to have an impact even before they begin.

Several interviewees also mentioned that their audit institution had recently improved its audit selection process to make it more formal, rigorous, and risk-based. The hope is that a more robust audit selection process will allow performance audit managers to make better decisions and select more impactful audits. (Various options for improving the audit selection process can be found in our discussion paper *Audit Selection and Multi-Year Planning*.)

From Planning to Reporting: Establishing and Maintaining Good Relationships

If there was a consensus among all the auditors we interviewed, it was about the importance of establishing and maintaining good relationships with the auditees. Nearly all the interviewees emphasized this point. And, while the practices they talked about were not new or revolutionary, they were certainly perceived as fundamental to producing relevant, impactful audits.

Good relationships are important because they are the basis for building trust and understanding, and ultimately, a cooperative attitude that enables auditors and auditees to agree on a set of practical audit recommendations. Without this cooperative attitude, auditors are less likely to obtain the buy-in of auditees and auditees are less likely to implement audit recommendations. And, without implementation, an audit will have a much less significant impact.

From what we heard during the interviews, many Canadian audit offices have made conscious efforts in recent years to improve relationships with their auditees. The many actions mentioned by auditors were simple enough in themselves, but they do require a continued commitment from all the auditors involved in discussions with auditees. These actions included:

- holding more frequent meetings with deputy ministers (or senior executives or city managers) to respond to their questions and concerns;
- being more transparent with auditees about audit plans and criteria;
- sharing and discussing significant audit observations with management early on (the “no surprise” approach), as well as sharing news releases with auditees prior to their publication;
- taking the time to explain audit findings in detail to management and discussing potential audit recommendations to ensure that they would be practical and well-targeted;
- being respectful of auditees’ time and aware of their workload, as well as making efforts to minimize the impact of the audit process on their operations; and
- listening carefully to what auditees have to say and demonstrating to them that the audit team has developed a good understanding of their business.

> Building good relationships between auditors and auditees is “a frame of mind that must be cultivated and sustained over time.”

One interviewee stated that building good relationships goes beyond all of these actions; it is in fact “a frame of mind that must be cultivated and sustained over time” to reap results. Another interviewee stressed that good relationships are not something you start to work on at the beginning of an audit. By then it is already too late. It is much better to cultivate good relationships as early as possible, as soon as one becomes responsible for a specific audit portfolio.

Finally, a senior auditor we interviewed attributed in good measure the increasing rate of recommendation implementation that his office has observed in recent years to the efforts this office made to improve relationships with auditees over the same period. For this auditor, there was no doubt that good relationships can contribute to producing more impactful audits.

The Reporting Phase: Sharing Your Message Far and Wide

Using social media platforms and other new communication tools has been another area of interest for many Canadian audit institutions in recent years. Some already have a presence on Twitter, LinkedIn, Facebook, and YouTube—several offices are on all these platforms—while others are proceeding more slowly, experimenting with one platform at a time.

The senior auditors we interviewed were aware of social media’s potential for reaching out to a broader audience, particularly younger generations. However, many were yet unsure how this potential could be best exploited. Many audit offices have taken the first step of announcing the publication of their audit reports on Twitter or Facebook, but some are not quite certain whether they can or want to do more than this. Also, many audit offices do not have a communication specialist on staff and do not feel they currently have the capacity to manage several social media platforms concurrently. But whatever the means used and the resources available, the goal of using social media remains the same: to increase the potential for impact by disseminating audit messages to a larger audience.

Some audit institutions use YouTube and are now producing a short video for each of their performance audits that highlights their findings. Because YouTube is very popular among younger people, it may be an effective means of reaching a growing audience of young citizens who prefer to learn by watching short videos.

Audit conclusions can also be shared through traditional means, by making presentations at conferences or on university campuses. While this is not common among Canadian audit institutions, several auditors believe that their office would gain by making more of these presentations because, to quote an interviewee, "education is important, too—we can go beyond the 'who's to blame' approach."

Audit reports also aim to educate—they can go beyond the "who's to blame" approach.

Reaching a wider audience and increasing engagement with existing audiences can also be achieved by producing audit reports that are more attractive and easier to read and understand. Many audit offices across Canada have made efforts in this direction in recent years through various means, including:

- adopting a plain language style and providing training to their auditors on report writing (including CAAF's Effective Report Writing Training);
- using infographics and data visualization techniques to convey key information at a glance;
- using more colours in audit reports (instead of black text on a white background); and
- writing shorter reports and providing a concise summary at the front end.

Several auditors we interviewed also emphasized that reporting more frequently can effectively increase the impact of performance audits. By "reporting more frequently," they meant publishing audit reports as soon as they are completed, as opposed to publishing all audit reports in one single annual report (or many audits together in semi-annual reports). This is currently common in municipal audit institutions, but rare in the provincial offices (the exceptions are the auditors general of British Columbia and Manitoba). The auditors who favoured this reporting strategy had a number of arguments to support their claim:

- Reporting when ready means that reports are timely and current. When reporting annually, some audits may have been completed months before the reporting date and may be less current as a result.
- Reporting audits separately allows auditors general, the media, and those elected officials charged with reviewing audit reports to devote their attention to each report one at a time. When many reports are published all at once, attention tends to be captured by a few reports at the expense of the others.
- Reporting audits separately also allows an audit office to use social media platforms to highlight the main messages of each audit, which may not be possible when many audits are published all at once.
- Reporting more frequently provides more visibility for audit institutions and more opportunities to remind elected officials and the public of their role and the importance of their work.

However, not everyone we talked with agreed with all these arguments. For example, we heard that the "reporting as ready" approach made planning and coordination more difficult within an office. We also heard that offering only one report at a time to elected officials took away from these officials the option of deciding on which topic to focus their attention. And, of course, depending on the wording of their legal mandate, some audit institutions may not have the flexibility of reporting as often as they might want to.

The Follow-up Process: Keeping the Pressure On

As explained in this paper, the percentage of implemented audit recommendations is a key indicator used by audit institutions to measure the impact of their performance audits. Audit offices strive to achieve high recommendation implementation rates because they consider that achieving this goal shows that they are making a difference.

To increase their performance in this regard, many Canadian audit institutions have made changes in recent years to their recommendation follow-up practices. Many auditors we interviewed highlighted the improved practices their office had adopted and explained that these changes reflected a belief that putting more emphasis on recommendation follow-up leads to more impactful audits.

Most of the changes we heard about have to do with the scope, timing, and frequency of follow-up activities. Several audit offices now follow up on recommendations earlier and more often than in the past. For example, some offices now follow up on audit recommendations every year after they are first presented to the auditees. In some cases, the practice ceases after three or four years, but in others the follow-up continues until all recommendations are implemented or until they become obsolete. According to auditors we interviewed, this "keeps the pressure on" and reduces the likelihood of "auditees losing their momentum over time or forgetting about some recommendations because they have not heard from the auditors for two years or more."

> Due to limited resources, there is often a trade-off between follow-up work and new audits.

Another change we heard about from several auditors is the decision of their audit office to put more effort into verifying the information reported by the auditees about the status of the recommendations they are responsible for implementing. There appears to be a trend toward providing a higher level of assurance for the follow-up of performance audit recommendations.

Of course, doing more frequent follow-up work at a higher level of assurance requires more time and resources. In practice, this has meant that several audit institutions have made a conscious choice to allocate more of their resources to follow-up audits at the expense of doing fewer new audits. This results in fewer audit recommendations overall, but these recommendations are subjected to more rigorous and more frequent follow-up, which increased the likelihood that they will be fully implemented and lead to positive change.

According to our interviewees, this trade-off between follow-up work and new audits has been worth it. For example, senior managers at the Office of the Auditor General of Québec have noted an improvement in the rate of recommendation implementation since they have started to do more frequent and more rigorous follow-ups. They and other auditors we talked with have also noted that making fewer recommendations every year has forced them to pay more attention when they draft their recommendations. They feel that this new constraint provides them with an additional incentive to make only recommendations that will drive significant change; in essence, they now make fewer but better recommendations. To help auditors achieve this aim, **Table 5** lists questions to consider when drafting performance audit recommendations.

Table 5 – Some Questions to Consider When Drafting Audit Recommendations

Questions
1. Is the recommendation addressed to the right organization (that is, the one that can actually implement it and make change happen)? 2. Is the recommendation aimed at the root cause of the issue or at its symptoms? (See our discussion paper on Root Cause Analysis for guidance on this topic.) 3. Is the recommendation consistent with the audit observations and with recommendations made in previous audit reports, where applicable? 4. Is the recommendation focused on an area of significant risk? 5. Is the recommendation succinct but detailed enough to stand alone? 6. Is the recommendation worded in such a way that it is not too prescriptive? (That is, the auditees retain the flexibility to decide the best means of implementing the recommendation.) 7. What is the cost and feasibility of implementing the proposed action? Are there alternative courses of remedial action that would be easier to implement or be more affordable? 8. Can the recommendation be implemented within a reasonable time? 9. What would be the impact on results, both positive and negative, if the recommendation were adopted? 10. Could successful implementation of the recommendation be reasonably determined in a follow-up audit?

Beyond doing more frequent and more rigorous follow-ups, and issuing better recommendations, a few audit institutions have adopted a more systematic approach to action plans for implementing audit recommendations. Clear rules have been defined about when auditees have to submit their action plans and what these plans should include. The offices of the auditors general of Québec, City of Québec, and City of Laval have also started assessing the quality of these action plans against pre-established criteria and they follow up with auditees to ensure that their action plans meet these criteria.

Following a recommendation by the Auditor General of the City of Montréal, the City allocated funding in its 2019 budget to create an analyst position in the office of the Comptroller General. This analyst will be responsible (among other tasks) for following up on the City's implementation of Auditor General recommendations and for ensuring that corrective measures are taken as set out in action plans. (The City of Laval has a similar arrangement.) Managers who fail to meet their commitments will be asked by the City

Manager to provide explanations and justifications. This type of internal accountability structure strongly complements the follow-up activities of audit institutions.

Finally, in some provinces, the Public Accounts Committee is actively involved in requesting the action plans from the auditees and in following up on their progress in implementing these plans. This is done in collaboration with the provincial Auditor General. For more information on how auditors general and Public Accounts Committees can best collaborate and increase their impact, consult our discussion paper on this topic: *Building and Sustaining Effective Auditor General – Public Accounts Committee Relationships*.

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