

A DISCUSSION PAPER

How to Increase the Impact of Environmental Performance Audits



CANADIAN AUDIT
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FOUNDATION



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How to Increase the Impact of Environmental Performance Audits – A Discussion Paper

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Introduction

Performance auditors desire to have a positive impact on the programs and entities they audit. Similarly, performance auditors focusing on environmental, health, and safety issues want to see their recommendations implemented and programs and entities to improve as a result. Ultimately, they want environmental quality and the health and safety of all citizens to benefit from their audits.

Why Environmental Performance Audits Are Important

Environmental pressures and degradation continue to be of concern. The United Nations Environment Programme (UNEP) recently stated, in describing its fifth Global Environment Outlook (GEO) report, that

“The currently observed changes to the Earth System are unprecedented in human history. Efforts to slow the rate or extent of change – including enhanced resource efficiency and mitigation measures – have resulted in moderate successes but have not succeeded in reversing adverse environmental changes. Neither the scope of these nor their speed has abated in the past five years. As human pressures on the Earth System accelerate, several critical global, regional and local thresholds are close or have been exceeded. Once these have been passed, abrupt and possibly irreversible changes to the life-support functions of the planet are likely to occur, with significant adverse implications for human well-being.”

Similarly, the Organisation for Economic Co-operation and Development (OECD) in its Environmental Outlook to 2030 has identified a number of key global challenges, including those related to:

- climate change (for example, increasing droughts, floods, extreme weather events);
- biodiversity and renewable natural resources (for example, ecosystem quality, species loss, tropical forests, and ecosystem fragmentation);
- water (for example, water scarcity and groundwater quality);
- air quality (for example, urban air quality); and
- waste and hazardous chemicals (for example, hazardous waste management and transportation, and chemicals in the environment and in consumer products).

In Canada there are important environmental concerns. From the collapse of fisheries to contaminated drinking water, from the impacts of climate change to urban smog, from threatened aquifers to invasive species, communities and ecosystems from coast to coast in Canada are experiencing problems that need to be addressed.

The good news is that there is reason for optimism. Globally, the United Nations Environment Programme recognizes that environmental audits, such as those conducted by national audit offices, can and do play a crucial and vital role in the implementation of environmental goals and objectives, including those enshrined in multilateral environmental agreements. Here at home, legislative audit offices have been conducting environmental audits and recommending improvements for decades.

This discussion paper suggests that it is possible to increase the impact of environmental performance audits and to improve environmental quality, through careful audit topic selection, planning, execution, reporting, and communication.

Having a Positive Impact

The process of performance auditing is, in some respects, relatively straightforward. What is more difficult, but possible, is to bring about change, to have an impact, and to add value.

But what does “impact” mean with a performance audit? There is no single answer to this question. Different actors and stakeholders (legislators, departmental officials, medias, non-governmental organizations, lobbyists, the public, and so on) will have different perspectives on this question. Some will focus on short-term issues, others on long-term effects; some on local consequences, others on national questions. While perspectives vary, environmental auditors usually think about audit impact in terms of improved program management, which tends to happen within a year or two, and in terms of improved environmental quality, which usually takes place over many years. **Table 1** provides potential examples for both categories.

Table 1 – Examples of the Types of Impact that Can Result from Environmental Performance Audits

Improved Program Management (output)	Improved Environmental Quality (outcome)
Reduced risks and better mitigation measures	Reduced emission levels, cleaner effluents, reduction of waste production
Increased oversight, better governance, clearer roles and responsibilities	More sustainable usage of natural resources (for example, water, energy, fishstocks)
Improved compliance with laws and regulations	Improved ecosystem health, increased biodiversity, better control of invasive species
Savings and increased program efficiency	Recovery of endangered species

Beyond improving program management and environmental quality, environmental audits can also have a positive impact by raising the profile of an environmental issue. Audits can achieve this through sharing independent information, stimulating public debates, and prompting legislators, the media, and other key stakeholders to pay more attention to a specific environmental issue.

Having a positive impact is not something that can be taken for granted. It requires, among other elements, careful planning, professional judgment, innovation, consideration of government priorities, and good communications. Numerous factors will influence the impact that auditors will have with their reports. Some

of these are under the control of audit offices, like the choice of audit topics, the publishing dates, and the nature of recommendations. Other factors are not, such as the interest of the media and parliamentarians in a given topic, the will of audited entities to make changes, and the competing news stories occurring on publishing dates.

About this Paper

This paper discusses various means to increase the impact of environmental performance audits. It builds on ideas that apply to all performance audits while emphasizing ideas that capitalize on particular characteristics of the environmental domain that create special opportunities for increasing the impact of environmental performance audits. It suggests best practices to follow at every phase of the audit.

The paper is based on a keynote presentation given by John Reed¹ (Vice-President, Performance Audit, CCAF) and Jean Cinq-Mars (Sustainable Development Commissioner of Québec—Vérificateur général du Québec, VGQ) to INTOSAI (International Organization of Supreme Audit Institutions) Working Group on Environmental Auditing held in Tallinn, Estonia, from 3–7 June 2013. The paper is a three-way collaborative effort among the CCAF, VGQ, and the Office of the Auditor General of Canada.

¹ Titles and organizations of individuals included in this publication were those in effect at the time of original publishing. The Canadian Audit & Accountability Foundation was then known as CCAF-FCVI Inc.

The Foundations of a Successful Performance Audit

Performance audits are diverse and focus on a wide variety of topics. One audit will focus on a single question in a single departmental program, while another will look at several complex issues in a number of programs managed by many departments. Some audits focus on economy or effectiveness, while others focus on efficiency. Many audits are about compliance with policies, laws, and regulations while others focus on the management systems and controls that support such compliance. Most look at results. While environmental performance audits deal with a specialized subject matter, they also fall in the categories listed above, according to their focus and scope.

Whatever the audits' form, extent, or focus, the success of all performance audits rests on the same necessary foundations:

- a solid methodology,
- qualified people, and
- a sound knowledge of the subject matter.

Solid Methodology

Audit offices recognize the importance of solid methodology. Methodology that complies with professional standards, adopts best practices, and reflects key principles of quality assurance and quality control will enhance the capacity of auditors to add value and to bring about change through their audits. The audit methodologies used in Canadian legislative audit offices are based on the Chartered Professional Accountants Canada (formerly Canadian Institute of Chartered Accountants') auditing standards.

Qualified People

To apply audit methodology as intended and complete audits in a timely manner, strong audit teams are required. These teams must consist of the right people with the right skills for each particular project. The most effective performance auditors usually possess a combination of key skills that they apply during all phases of an audit, particularly:

- professional judgment,
- critical thinking,
- creativity and innovation,
- ability to lead and supervise, and
- ability to manage relationships and communications, both internally and externally (with departments and agencies).

Sound Knowledge of the Subject Matter

Finally, to achieve success and have an impact, auditors must select the right issues to audit, prepare a report that addresses the main questions convincingly, and communicate their conclusions in an effective manner—all of which require a sound knowledge of the subject matter. For environmental auditors, this generally means having a good understanding of current environmental issues and of relevant environmental laws, regulations, policies, standards, and international agreements (such as on climate change, the ozone layer, protection of endangered species, fisheries management, chemicals, and waste management). It may also involve getting the support of advisors and specialists that have related background and experience with the topic being audited.

Planning Phase

A well-selected and planned audit is more likely to bring about significant change and add value. This is why audit offices often spend between 30 and 40 percent of their audit hours in the planning phase. Spending adequate time up front to understand the audit subject and to prepare a robust audit plan will help auditors to avoid having to deal with unforeseen complications later on when the audit has already started and the flexibility to make corrections may be limited. Some audit offices develop strategic long-term audit plans that identify potential audit topics for a given period of time. The planning phase of an audit develops the breadth and scope of these audit topics. This section recommends best practices in the planning phase.

Many audit offices use a “good practice” tool called an Audit Logic Matrix (ALM) to set out on paper the logical structure of their audit plan, from audit objective(s) to audit questions, criteria, methodology, evidence to gather, expected limitations, and potential messages. Completing an Audit Logic Matrix is an effective way of ensuring that the audit team has thought through the whole audit process and has already considered whether its audit plan will allow for sufficient evidence to conclude on the audit objective(s)—an essential prerequisite for any high-impact audit.

Topic Selection: Choose Topics that People Connect With

All performance audits start by selecting a topic. This is the most important decision in the whole process and is often the most difficult task. Choosing the right topic is one of the main determinants of the impact that an audit office can have through its reports. Selecting good topics for performance audits generally requires a sound knowledge of the subject matter, a thorough risk analysis, plenty of discussions among team members and with subject matter experts, and a large dose of professional judgment.

Beyond these fundamental elements, auditors can increase the possibility of producing high-impact environmental audits by choosing topics that legislators and the public care about. Individuals need to be able to connect with the audit topic easily. Topics can be chosen based on several factors, such as the economic or social importance and impact of environmental issues on the nation or selected communities.

One feature of the environmental domain is that environmental degradation (for example, smog, polluted water, tainted food, and global warming) is actually experienced by vast numbers of people everyday, everywhere. Environmental problems are not theoretical abstractions. Rather, they are real, with direct effects on people and the economy. They can span generations and are often shared with neighbouring countries. If people don't care about an issue, possibilities are high that media and parliamentarians won't care, either. Therefore, it is suggested to choose topics and supporting case studies that people can connect with: their health and the health of their children, the economy and jobs, and their local environment and community. Topics that do not address the “so what”—why the reader should care—are unlikely to make for a high-impact audit.

Audit Objectives: Focus on Results, Not Just Systems

Government decision-making processes, management systems, and internal controls are important, in the long run, for achieving environmental results. And yet, these systems are not usually matters that people really care about or connect with. Environmental audits that focus (partially or exclusively) on tangible outcomes and results achieved are more likely to attract attention than audits that focus solely on systems or procedures. This could include the extent to which governments have solved existing environmental problems. By including one or more sections on results in their audits, audit teams can more easily link their work to environmental quality and the concerns of Canadians. This will facilitate communicating audit findings to parliamentarians, the media, and the public.

Criteria: Go Beyond Compliance

Beyond determining the precise audit objective(s) in an audit, one of the main challenges facing all performance auditors is to select appropriate criteria to assess an entity's performance in relation to the audit objective(s). Audit offices have developed various tools and guidance material to help auditors to make the right decisions when selecting objectives and criteria.

Government environmental regulations are often based on minimum requirements (this is sometimes called the lowest common denominator approach). When auditors use minimum requirements as audit criteria, they are tacitly promoting minimum measures and are unlikely to bring about positive change by doing so. In contrast, high-impact audits will be those that:

- use best practices as expectations against which to assess programs and departments,
- compare the performance of audited entities with similar organizations in other jurisdictions, and
- expect to observe constant improvements over time.

During the audit planning phase, performance auditors can also improve their audit plans by consulting with internal or external subject matter experts about objectives and criteria. By doing so, audit teams can identify more relevant criteria or simply gain assurance that they have selected the right audit objective(s) and criteria for their audit. These experts also provide additional sources of experience to rely on in cases where the auditors' environmental background is not as strong.

Timing: Exploit "Pivot Points" in Issue Life Cycle

Environmental performance auditors can also take advantage of the fact that many environmental issues operate on long-term cycles that include a number of "pivot points"—key moments when decisions need to be taken that will influence future actions and events. By understanding the life cycle of an environmental issue, auditors can identify pivot points and attempt to time the conduct and reporting of an audit so that it influences the decisions that will be taken. For example, with regard to international issues like climate change, ozone protection, fishing, or migratory species, formal "meetings of the parties" are pivotal events where decision makers come together to take decisions. Other events, like the periodic review of key environmental legislation or the development of revised or new policies, can also be considered pivot points.

Pivot points can also exist at the level of specific departmental programs. For example, conducting an audit toward the end of the first phase of a program and before the start of the next phase allows auditors to identify management flaws or missing elements in a program and to make timely recommendations to improve overall program delivery.

Auditing a potential risk area before it becomes a major disaster occurs is also a means of considering key pivot points. For example, assessing the overall management of a new fishery while it is healthy is better than assessing the same fishery after it has collapsed. Assessing the preparedness to respond to an oil spill at sea is better than diagnosing emergency preparedness after a large spill actually occurs.

Scope: Consider Linkages

Environmental issues are often connected. Auditors should consider doing multiple audits on one topic in one year or over a period of years. Many environmental issues have various dimensions, so multiple audits on a single large topic, like climate change or biodiversity, may be a sound approach if the intent is to increase the profile of an issue and provide comprehensive coverage.

Whether the issue is addressed in one audit or within a series of audits, the adoption of a comprehensive approach can also be considered. An audit that provides comprehensive coverage of an environmental issue is more likely to foster debates and bring about comprehensive solutions than a narrowly focused audit.

Adopting a sustainable development approach and its three aspects (economy, environment, and society) involves a wider perspective and is recommended. Different audiences have different priorities, which include the development of the economy, the creation and maintenance of jobs, and the protection of citizens' health and safety. If an environmental audit can also show concrete links to these other issues, the resulting audit reports will appeal to a broader public and won't be easily dismissed as supporting impractical, one-sided visions.

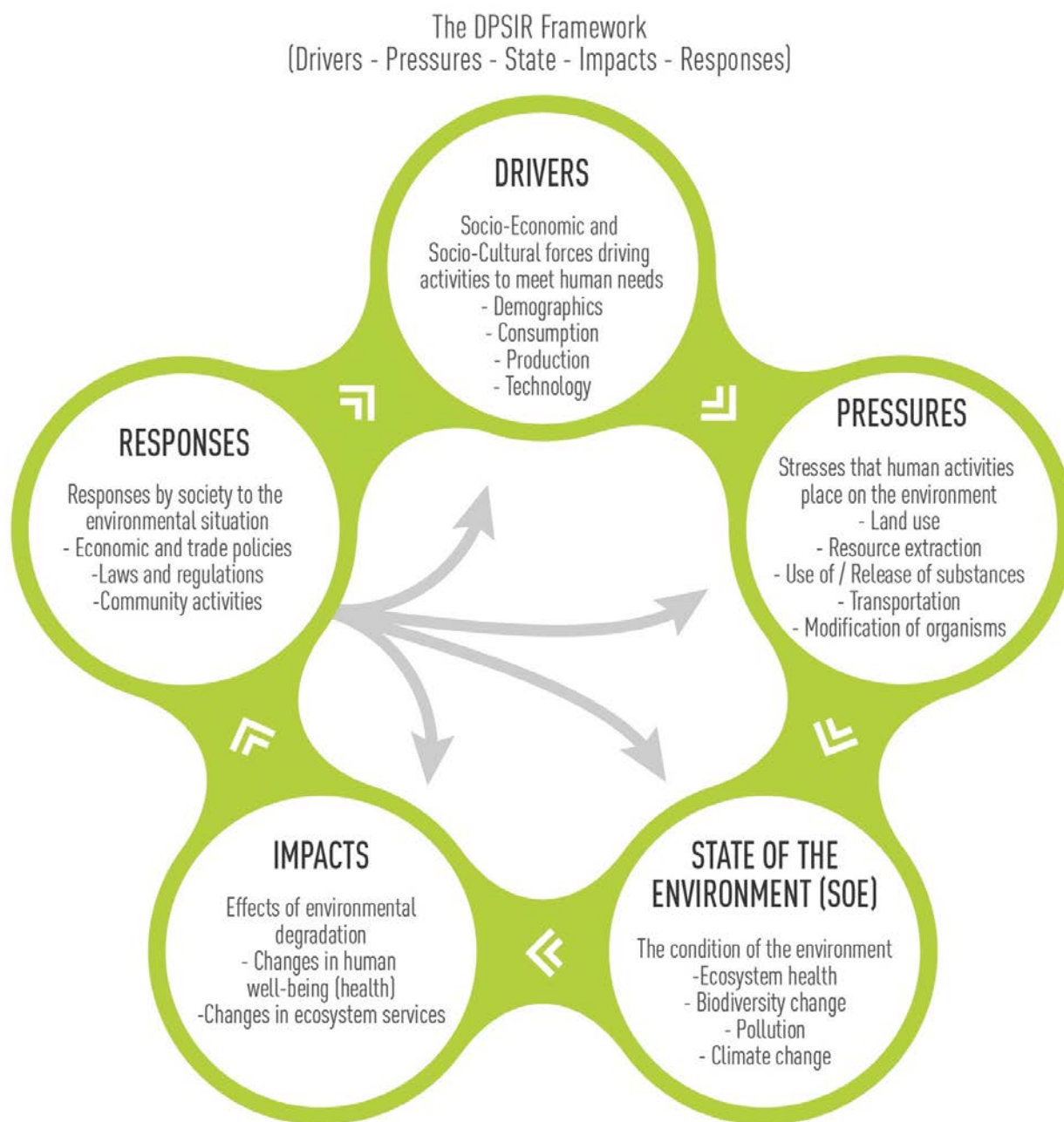
Focus: Tackle the Drivers of Degradation

The Drivers Pressures State Impacts Responses (DPSIR) analytical framework can be a useful tool to increase the impact of environmental audits by tackling the underlying forces behind environmental degradation and impacts on people.

The DPSIR Framework (**Figure 1**) is well known and has been used in the environmental domain for decades as a means to understand the causes and effects of environmental problems. Each of the elements in the DPSIR Framework is described below.

Drivers: The DPSIR Framework suggests that these government "responses" to environmental issues are, in fact, part of a broader continuum that starts with "drivers." Drivers are the overarching socio-economic forces that exert pressures on the state of the environment. Population growth, globalization, economic development, energy use, and transport are seen as particularly significant drivers of environmental change.

Figure 1 – The DPSIR Framework (Drivers-Pressures-State-Impacts-Responses)



Pressures: Drivers in turn produce “pressures” on the environment, essentially stresses that result from human activity. These include land use change, resource extraction, use of external inputs such as chemical fertilizers, emissions of pollutants and wastes, and the movement of organisms.

State: Pressures in turn affect, usually negatively, the condition or “state” of the environment. For example, pressures can lead to ozone depletion, climate change, pollution, and loss of biodiversity.

Impacts: The state of the environment consequently impacts human well-being and ecosystems. The “impacts” ultimately lead to government interventions, or responses.

Responses: In environmental auditing, auditors need to understand how the government has responded to a given environmental issue. For example, auditors are encouraged to identify what international treaties have been signed; what policies, laws, and regulations have been enacted; and what controls and processes have been put in place. Auditors typically use these as a starting point for developing audit objectives and criteria and for auditing the level of implementation and the results achieved.

The DPSIR framework is partly an educational tool and using it can help environmental auditors to understand and diagnose what is happening to the environment and why, what the consequences are, and what measures the government has put in place. More importantly, using the framework may lead the auditors to focus the audit on the measures taken by government to address the drivers and pressures that cause the degradation in the first place, not just on the measures put in place to deal with the degradation. For example, if an audit was concerned with the quality of drinking water, the focus could be on the measures in place to treat and distribute safe drinking water; a different approach could focus on the measures in place to prevent water supplies from being contaminated.

Working with Others: Conduct Collaborative Audits and Learn from Others

Environmental issues often cross borders and cannot be resolved by a single jurisdiction. By collaborating with audit offices in other jurisdictions and releasing joint reports or separate reports around the same time, auditors can multiply their impact, raise the profile of an issue, and bring about new collaborative initiatives between concerned administrations to tackle common and shared environmental problems.

The INTOSAI Working Group on Environmental Auditing (WGEA) has produced guidance materials for collaborative audits and has many examples of such audits on its website (<http://www.environmental-auditing.org>) such as the Coordinated International Audit on Climate Change conducted by 14 national audit offices and based on 33 individual audits. The WGEA also has a large database of audits conducted by national audit offices around the world. Between 1993 and 2011, national audit offices in over 100 countries conducted more than 3,200 financial, compliance, and performance audits related to the environment.

Audit Execution and Examination

Data: Anticipate and Continually Assess Data Needs

The use of quantification is widely considered a good practice in audit reports in order to increase their impact. That said, quantification begins in the planning phase of the audit and carries through reporting. In the planning phase, the types, sources, and limitations of evidence and data are identified. Also at this stage, auditors should try to determine the types of qualitative and quantitative data analysis they will carry out on the evidence and how it may be presented. In the examination phase, auditors need to continually assess whether the anticipated type of data and evidence is in fact available and still relevant. If such data is not available, adjustments to the audit plan may be needed.

Observations: Identify Root Causes

Performance audits, like all audits, compare a situation that exists with the way it should be, based on suitable criteria. This typically leads to the identification of gaps between the two, called audit “findings” or “observations.” Examples of common audit findings include, but are not limited to:

- lack of compliance with rules or policies;
- results not being achieved as intended;
- risks not being evaluated and managed;
- strategies not being developed or followed;
- activities and actions of key players being poorly coordinated or having unclear roles;
- missing data or information to measure program results or to support decisions; and
- weak or absent oversight.

The burning question is: Why do the deficiencies occur? Why are entities not in compliance? Why are risks not being managed? Why are intended results not being realized? Why aren’t oversight bodies doing their job? What is the cause?

Root cause analysis can help to answer these “Why so?” questions. That information alone is valuable for strengthening the impact of audit reports.

Moreover, and perhaps more importantly, root cause analysis can provide the insight that supports making effective recommendations. In this sense, “effective” recommendations are those that lead to lasting solutions that prevent the problem from recurring, rather than simply telling management to “fix the problem.”

Several tools are available to support a structured gathering and analysis of information related to root causes of audit observations. These include “fishbone” (or Ishikawa) diagrams, “The Five Whys,” and “cause mapping.” Descriptions of these techniques are available on the Internet. One caution, however: Root causes that are traced to the merits of policy, availability of resources, or partisanship can be difficult for legislative auditors to address.

Reporting Audit Findings

By the end of the examination phase, auditors have usually gathered evidence from various sources, all of which has to be considered, analyzed, and retained or discarded. In this evidence lies the story the audit will eventually tell. The challenge is to determine what the main messages will be and how they will be presented. Since auditors usually have only one chance to communicate their audit's findings, they have to do it in a clear, convincing manner.

While the format and style of audit reports varies from office to office, some basic rules can be followed by all performance auditors when comes time to report audit findings. For example, auditors should keep in mind that the most effective reports answer the following questions:

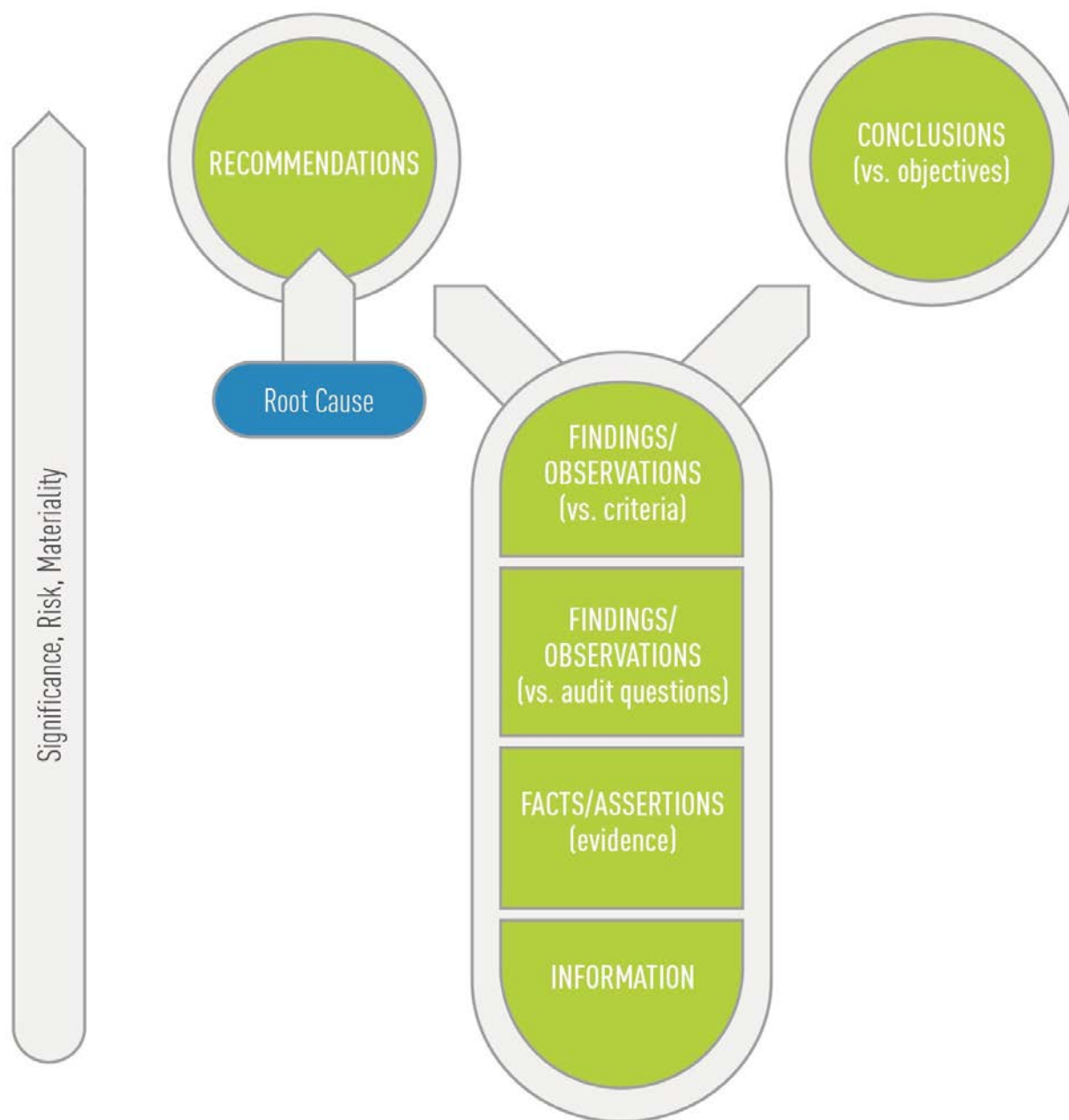
- “What?”—Identify the problems that have been uncovered by the audit.
- “So what?”—Explain why the reader should care about the audit findings.
- “Why so?”—Identify the root cause of problems or observations.
- “What next?”—Highlight the recommendations or solutions proposed.

In addition, auditors should strike the right tone and communicate a balance of positive and negative findings that reflects the evidence gathered. This balance serves to increase audit credibility but it should not be forced.

Roll-Up Findings: Consider Environmental, Health, or Safety Significance

Figure 2 illustrates the “roll-up” technique for developing good audit reports. This technique involves various considerations that help to filter information and prioritize messages for inclusion in the report. For example, as one moves from the bottom to the top, the technique involves examining the large amounts of information normally collected in the course of an audit in order to identify usable evidence. The techniques also suggests including in the report only those facts, observations and conclusions that are material, significant, and/or of high risk. In the environmental domain, significance and risk can and should relate to human health, ecosystem functioning, and the financial consequences of environmental degradation.

Figure 2 – The Roll-Up Technique for Performance Audit Reports



Another Important Role: Use Audit Reports to Educate

Environmental questions are often complex and it may be necessary to explain important concepts in a report's introduction to help readers fully understand audit findings and their significance. For this reason, it is recommended that environmental auditors use the front end of their reports to educate the readers about relevant environmental issues, providing them with basic context and background information. It is an ideal place in the report to make the necessary links to any related key economic and social aspects.

Report authors should use plain language and avoid being too technical. Environmental audit reports that succeed in making complex topics accessible and that provide readers with new information are more likely to have an impact and to add value. Similarly, reports that help readers identify with the topic and care about the audit findings will have more influence. This can be achieved by using concrete case studies in the report. For example, cases studies about environmental quality in urban areas can be very effective, especially if they provide information about potential health impacts.

Recommendations: Strive to Have a Domino Effect

Ultimately, the impact of an environmental performance audit will depend on the quality of the recommendations and on their implementation. Writing obvious or superficial recommendations is easy, but making recommendations that will have a lasting structural impact is more challenging and requires much thought and professional judgment.

Too often, recommendations are prepared at the end of the audit, seemingly as an afterthought. To increase the likelihood of making meaningful recommendations, the thought process should start early in the audit, during the examination phase. Sometimes operational recommendations, such as the preparation of action plans, are required as a first step in organizing a first response. However, environmental auditors will be more likely to add value if they prepare recommendations that:

- are strategic, not operational, in nature;
- address the root cause of problems, not the symptoms; and
- focus on the expected results and achievements, not on the means of getting there.

Auditors can make strategic recommendations by focusing on the “pivot points” (discussed earlier) in relevant decision-making processes.

They can also aim to create a “domino effect.” The domino effect refers to situations in which changes to one element of a system trigger changes in other elements of the same system; the effect is greater when systems elements are closely interlinked. For example, introducing a carbon tax will create a domino effect in society and in the economy since the tax is likely to lead to a reduction in the consumption of carbon-intensive products, lower greenhouse gas emissions, increased use of public transport, better air quality, improved health for citizens, and lower health care costs. To maximize a domino effect, recommendations have to be targeted at a key point in the decision-making process—a trigger point that will generate a cascade of impacts onto many elements of the process or system.

Recommendations that are superficial (for example, “the entity does not have a strategy, so we recommend it develop a strategy”) or superfluous (for example, “the entity should continue to do...”) are unlikely to lead to significant changes. In some cases they may be required as a first step, but to be effective, recommendations should address the root cause of identified problems, not their symptoms.

Recommendations that focus on the expected result or outcome will also be more effective. By not being prescriptive about how to achieve these results, auditors are giving entities the liberty and flexibility they need to express their creativity in solving problems, within the limits of their operational constraints.

Finally, when making recommendations, auditors should try to be innovative and to push the boundaries. (One way to achieve this is to analyze and compare the practices used in other administrations.) At the same time, they should always remain realistic and consider the views of the audited entity on the proposed recommendations and its capacity to address them.

Audiences: Reach Out Beyond the Usual Suspects

External communications are crucial to any performance audit. However, audit offices tend to be conservative when it comes to communicating audit results. Often, an audit’s communications strategy will not go beyond the regular news release, news conference, and interviews with the usual media.

There are other options. In fact, one of the features of the environmental domain is the preponderance of stakeholders that can help to reinforce audit messages and impact. All that is required is to reach out beyond the usual suspects. For example, environmental auditors can contact specialized media, journals, academics, and members of civil society. In particular, they can enable grassroots organizations and today’s youth.

Follow-up

When and How Often: Be Tenacious about Important Issues

If one audit can have an impact, two audits can have even more. Conducting an environmental audit or a series of environmental audits and later conducting a follow-up audit to determine progress in resolving deficiencies and implementing recommendations is an effective way of ensuring that audit work will have a lasting impact. Indeed, when entities know that a follow-up audit might (or will) take place, they are more likely to take concrete actions. It is in everyone's interest not to let an audit gather dust.

Follow-up audits usually take place after a few years have elapsed since the original audit—enough time for entities to implement recommendations. In most cases, only one follow-up will be done. But sometimes it is a good strategy to plan for more follow-up audits, especially in the environmental domain, where issues tend to have long time frames. It is therefore a good practice for environmental performance auditors to have a long-term plan that includes repeated coverage for selected issues. For example, it might be decided that two follow-up audits over a five-year period would be necessary to ensure all required actions are taken to implement comprehensive recommendations in a given program or entity.

Conclusion

Governments are tasked with managing and addressing key environmental issues, from the collapse of fisheries to contaminated drinking water, from the impacts of climate change to urban smog, and from threatened aquifers to invasive species. Audit offices have the mandate to assess the implementation and effectiveness of the management of these issues and many more.

Environmental audits have the power to help affect change in these areas. But to do so requires careful attention to audit topic selection, planning, execution, reporting, and communication.

By focusing on these elements, it is possible to increase the impact of environmental performance audits and as a result improve environmental quality through better and more effectively managed programs. Even auditors play a role in the concept behind the saying, “We don’t inherit the Earth from our parents, we borrow it from our children.”

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