



O F F I C E O F T H E  
**Auditor General**  
of British Columbia

Third Follow-up of 2000/2001 Report 4:  
Management Consulting Engagements  
in Government

March 2005

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OFFICE OF THE  
**Auditor General**  
of British Columbia

The Honourable Claude Richmond  
Speaker of the Legislative Assembly  
Province of British Columbia  
Parliament Buildings  
Victoria, British Columbia  
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2004/05 Report 12: Follow-up of 2000/2001 Report 4: Management Consulting Engagements in Government.

*Wayne Strelieff*

Wayne Strelieff, FCA  
Auditor General

Victoria, British Columbia  
March 2005

copy: Mr. E. George MacMinn, Q.C.  
Clerk of the Legislative Assembly



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## Auditor General's Comments

I am pleased to present in this report the results of my Office's follow-up work on the Management Consulting Engagements in Government report issued in March 2001. This is the third follow-up report. The previous two were in June 2002 and August 2003 (see Appendix A for the complete timetable).

We perform follow-up reviews to provide the Legislative Assembly and the public with an update on the progress made by management in implementing our recommendations and those made by the Select Standing Committee on Public Accounts. Our recommendations are designed to improve public sector performance and are an important value-added component of our work.

We follow a process in our review that was agreed to with the Select Standing Committee on Public Accounts. As we complete a follow-up review, we provide a report to the Legislative Assembly, which is referred to the Select Standing Committee on Public Accounts (Appendix B).

Our approach to completing our follow-up reviews is to ask management of the organizations with responsibility for the matters examined to provide us with written representations describing action taken with respect to the recommendations. In this case, we asked the Ministries of Advanced Education, Children and Family Development and Finance to provide us with information as to the status of the recommendations. We then reviewed these representations to determine if the information reported, including an assessment of the progress made in implementing the recommendations, was presented fairly in all significant respects (Appendix C). For this follow-up report, we concluded that it was.

In this report, we provide a summary of the original report, our overall conclusion, a summary of the overall status of recommendations and each ministry's response to our request for an accounting of progress.

I am pleased to report that significant progress has been made in implementing the remaining recommendations. However, since our review was limited to the policies and management practices implemented since our audit, we cannot answer the original two audit questions: 1) Is government receiving value for money from its management consulting engagements; and 2) Is it awarding these contracts in a fair and open manner? Answering these questions would have required us to redo the audit, and I have no plans to do so in the near future. But I do encourage government to continue conducting

internal audits and reviews of its contracts and the ministries to constantly improve their contracting practices.

I wish to express my appreciation to the staff and senior management of the organizations we reviewed for their cooperation in preparing the follow-up report, providing the appropriate documentation and assisting my staff throughout the review process.



*Wayne Streliaff, FCA  
Auditor General*

*Victoria, British Columbia  
March 2005*



## Opinion on the Status of Recommendations

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This is our report on our 2004/05 follow-up of our recommendations from our audit, Management Consulting Engagements in Government.

Information as to the status of the recommendations was provided to us by the Ministries of Advanced Education, Children and Family Development and Finance. We reviewed these responses in February 2005.

We have reviewed the representations provided by these ministries regarding their progress in implementing the recommendations. Our review was limited to the policies and management practices implemented since our audit we did not assess how well the ministries are actually complying with government policies. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the Status Report on Implementation of the Auditor General's recommendations does not present fairly, in all significant respects, the progress made in implementing the recommendations contained in our Management Consulting Engagements in Government report.

## Summary of the Original Report on Management Consulting Engagements in Government, March 2001

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### Audit Purpose and Scope

The purpose of the audit was to determine to what extent the government in British Columbia was receiving value for money from its management consulting engagements and whether government was awarding these contracts in a fair and open manner.

We answered the following four key questions:

- Were the management consulting contracts awarded in a fair and open manner?
- Did the results of the engagements meet the need originally identified?
- Were the results of the management consulting engagements used?
- Could management demonstrate that the benefits of the management consulting engagements outweighed the costs?

The audit was limited to management consulting contracts within ministries. It did not consider those contracts awarded by Crown corporations or other government agencies, which were not subject to the same policies and procedures as the ministries. Information technology consulting was also not included. We did not perform a comprehensive review of the legal aspects of contracting for management consulting services (for example, contract language and enforceability).

We focused only on the actions of government officials as they entered into and administered these management consulting contracts, and we did not audit the consultants, and we made no comment on their actions.

### Overall Conclusion

Overall, we concluded that the ministries were receiving value for money from the majority (about 74%) of the management consulting contracts we could conclude on. In the other 26%, value for money was not received. In these situations, inadequate planning, inappropriate contractor selection, poor contract management or a combination of these factors usually accounted for the results. We also concluded that in most cases the ministries lacked action plans with which to ensure that consultant recommendations are acted upon and not lost or forgotten.

All of the ministries we reviewed, with the exception of the Ministry of Forests, usually awarded their management consulting contracts directly and not in an open and fair manner. Direct awards are contrary to government's principle of fair and open competition and make it almost impossible to ensure that management consulting engagements are being awarded in a manner that ensures best value. Although there are legitimate reasons for direct awarding, most of those we reviewed were not justifiable. Because direct awards were easier to initiate, managers generally opted for efficiency rather than fairness and openness.

At the same time, since the \$25,000 threshold and the exceptions to competitive award policies had not been reviewed for several years, it was not clear to us whether these policies led to the best value or represented the best balance between fairness and efficiency.

## Summary of Status of Recommendations

### Management Consulting Engagements in Government

Original Issue Date: March 2001

Followed Up: June 2002, August 2003, February 2005

Summary of Status at December 31, 2004	Ministry		
	Finance	Advanced Education	Children and Family Development
Total Recommendations	3	9	9
Fully Implemented	1	2	2
Substantially Implemented	1	7	6
Partially Implemented	0	0	1
Alternative Action	1	0	0
No Action	0	0	0
Follow-up Required	0	0	0

## Response from the Ministry of Finance

Original Issue Date: March 2001

First Followed Up: May 2002

Second Followed Up: May 2003

Third Follow Up: December 2004

Auditor General's Recommendations	Implementation Status				
	Fully	Substantially	Partially	Alternative Action	No Action
<p><b>Part I:</b>  <b>Is the process of awarding management consulting contracts fair and open?</b></p>					
<p>5. Government should ensure that a number of direct award contracts are randomly audited each year, to check that these contracts are being awarded according to government policy.</p>	✓				
<p>6. Government should annually report all service contracts for amounts greater than the competitive award threshold, including information about the purpose of the contract, the contractor name, the size of the contract and the awarding method.</p>				✓	

## Progress on Implementing the Recommendations as at December 31, 2004

### **Recommendation 5**

**Government should ensure that a number of direct award contracts are randomly audited each year, to check that these contracts are being awarded according to government policy.**

#### *Implementation Status – Fully Implemented*

During the past year, the Payment Review Office has done government-wide sampling for compliance with procurement and financial policy. These reviews included 174 direct award contracts over the period April 2003 to September 2004.

During the Summer 2004, Internal Audit and Advisory Services completed a cross-government audit of contracting practices to establish a baseline level of compliance. This review included a sampling of direct award contracts and established a baseline from which to determine, through future audit reviews, whether levels of compliance are improving.

A second cross-government audit is now underway. Audit planning is completed and audit work commenced in December 2004. This review also includes some direct award contracts.

Now that all ministries are using the iProcurement system (since November 2004) a data base of activity is being built up against which we can audit and report in the future.

During fiscal 2005/06 the Office of the Comptroller General will continue sampling all contracts for compliance with procurement and financial policy.

A major training program is in development to ensure that staff involved in the procurement process are well trained. A new 18 course program is being developed and 3 courses are available now. This program includes on-line and classroom learning. One on-line course is available now and two classroom courses are available—the first formal offering of the classroom courses was January 18–19, 2005.

## Recommendation 6

**Government should annually report all service contracts for amounts greater than the competitive award threshold, including information about the purpose of the contract, the contractor name, the size of the contract and the awarding method.**

### *Implementation Status – Alternative Action*

At the present time, government does not have the electronic data or systems capacity available to produce this report.

Effective November 2004, all ministries converted to the new iProcurement system, but changes to business practices and processes are required to fully utilize iProcurement and have all procurement transactions flowing through it. When all procurement information goes through the iProcurement system, government will have the data elements to produce a report.

In the interest of promoting compliance with government's procurement policy, the following alternative actions have been taken:

1. As part of a new procurement governance framework, a vendor complaint review process has been established. Vendors with unresolved issues regarding government's procurement processes now have a mechanism to raise questions about procurement decisions to the Chief Procurement Officer. This officer is part of the Office of the Comptroller General.  
  
The existence of this process helps motivate ministries to be compliant with government's procurement policies.
2. As outlined for recommendation 5, an extensive training program is in development to ensure that staff involved with the procurement process are well trained.
3. Regular and ongoing risk-based reviews of contracts are performed by the Payment Review Office (PRO) for contracts both under and over the direct award threshold. Contracts are reviewed for policy compliance including appropriate method of solicitation. PRO reviews are not limited to data in the iProcurement system.

Internal Audit and Advisory Service work has been directed toward ensuring that government procurement policy is adhered to through an annual targeted procurement contract audit.

## Response from the Ministry of Advanced Education

Original Issue Date: March 2001

First Followed Up: May 2002

Second Followed Up: May 2003

Third Follow Up: October 2004

Auditor General's Recommendations	Implementation Status				
	Fully	Substantially	Partially	Alternative Action	No Action
<b>Part II:</b> <b>Is the use of management consulting engagements providing value?</b>					
11. Ministries should create and monitor action plans for implementing the management consultant recommendations they have accepted.		✓			
12. Ministries should complete an evaluation of the results of each significant consulting engagement once it is completed.		✓			

## Progress on Implementing the Recommendations as at October 31, 2004

### **Part II: Is the use of management consulting engagements providing value?**

11. Ministries should create and monitor action plans for implementing the management consultant recommendations they have accepted.

#### *Substantially Implemented*

Between May 2003 and October 2004, this requirement has been further endorsed by a follow-up memorandum dated December 15, 2003, from the Senior Financial Officer to all directors.

Additionally, the ministry on-line *Financial Management Policy and Procedures Manual* was updated in February 2004 with a new section of guidelines (Chapter 4, Section 5.6) that detail how to review and implement the final product or recommendations arising from applicable contracts. This includes what to consider for an action plan. While the ministry engages management consultants infrequently, this provides an exceptional level of guidance for all types of contracts, not available elsewhere in central government manuals.

Further, Finance and Administrative Services Branch has dedicated client manager staff that provides expert advice and coaching to support contract manager compliance with policy implementation. As well, the branch reviewed all STOB 61 Advisory Contracts processed for the period May 31, 2003, to December 31, 2004. We found only one applicable contract for this period. This contract has a completion date of March 31, 2005. We have been in contact with the branch managing this contract and have requested that they forward their action plan for implementing the recommendations and evaluation of the results of the engagement for our review when the contract is complete. We will be requesting the same information for any new advisory contracts entered into before December 2005.

Finally, Ministry of Finance, Internal Audit and Advisory Services (IAAS) is performing a review of contracts across government, which commenced between July 1, 2003, and June 30, 2004. Finance and Administrative Services Branch will be using the findings of those reviews to reinforce good contract practices in specific branches.



12. Ministries should complete an evaluation of the results of each significant consulting engagement once it is completed.

*Substantially Implemented*

Between May 2003 and October 2004, this requirement has been further endorsed by a follow-up memorandum dated December 15, 2003, from the Senior Financial Officer to all directors.

Additionally, the ministry on-line *Financial Management Policy and Procedures Manual* was updated in February 2004 with enhanced procedures carrying out contract evaluations (Chapter 4, Section 5.5), complete with an on-line evaluation form to assist staff.

Further, Finance and Administrative Services Branch has dedicated client manager staff that provides expert advice and coaching to support contract manager compliance with policy and implementation of guidelines. The policy and value of performing an evaluation is further endorsed in the ministry training workshops during that period. As well, the branch reviewed all STOB 61 Advisory Contracts processed for the period May 31, 2003, to December 31, 2004. We found only one applicable contract for this period. This contract has a completion date of March 31, 2005. We have been in contact with the branch managing this contract and have requested that they forward their action plan for implementing the recommendations and evaluation of the results of the engagement for our review when the contract is complete. We will be requesting the same information for any new advisory contracts entered into before December 2005.

Finally IAAS is performing a review of contracts across government, which commenced between July 1, 2003, and June 30, 2004. Finance and Administrative Services will be using the findings of those reviews to reinforce good contracting practices in specific branches.

## Response from the Ministry of Children and Family Development

Original Issue Date: March 2001

First Followed Up: May 2002

Second Followed Up: May 2003

Third Follow Up: December 2004

Auditor General's Recommendations	Implementation Status				
	Fully	Substantially	Partially	Alternative Action	No Action
<p><b>Part II:</b> <b>Is the use of management consulting engagements providing value?</b></p> <p>11. Ministries should create and monitor action plans for implementing the management consultant recommendations they have accepted.</p>			✓		

## Progress on Implementing the Recommendations as at December 31, 2004

The Ministry of Children and Family Development reviewed all management consulting contracts completed during the 2002/03 fiscal year. The evaluation forms completed by contract managers confirmed that action plans have been developed for implementing the recommendations made by the contractors and, in many cases, the recommendations have already been implemented.

During 2003/2004 the ministry created a centralized process for approving, and reviewing all management consulting contracts. This process requires that the EFO sign off all management consulting contracts. In addition, the ministry has:

- created a Contracted Services Branch to improve performance and management of all contracts, including management consulting
- adopted a project management framework for all extraordinary activities, including those that require the engagement of management consultants
- created a Procurement Council to develop practice guidelines, tools and ensure champions of best practice in each core business area of the ministry

### **Part II: Is the use of management consulting engagements providing value?**

11. Ministries should create and monitor action plans for implementing the management consultant recommendations they have accepted.

#### *Partially implemented*

The next steps in meeting the audit requirements are development of a central repository for tracking, and development of tools to improve the ministry's use of management consultants and demonstrating progress on accepted recommendations.

The central repository will review and track trends in management consulting engagements, including:

- Management performance and practices related to the scope, cost management and execution of contracts
- Trends in types of consulting engagements

- Review of consulting engagements to determine strategic human resource requirements
- Central tracking of the action plans and implementation status of accepted recommendations

The Contracted Services Branch and Procurement Council will develop:

- Templates and tools for all aspects of contract management, including post-contract review
- Website material for staff to assist them in meeting performance expectations regarding management consulting contracts.

# Appendices



## Appendix A

### *Timetable of Reports Issued and Public Accounts Committee Meetings on Management Consulting Engagements in Government*

<i>March 2001</i>	Office of the Auditor General Issues 2000/2001 Report 4: Management Consulting Engagements in Government. The report included 12 recommendations.
<i>December 2001</i>	The Select Standing Committee on Public Accounts reviews our report.
<i>February 2001</i>	The Select Standing Committee on Public Accounts reports to the Legislative Assembly on its review of the report.
<i>June 2002</i>	Office of the Auditor General issues its first follow-up report on Management Consulting Engagements in Government.
<i>August 2003</i>	Office of the Auditor General issues its second follow-up report to the Select Standing Committee on Public Accounts.
<i>October 2003</i>	The Select Standing Committee on Public Accounts reviews second follow-up report.
<i>February 2004</i>	The Select Standing Committee on Public Accounts reports to the Legislative Assembly on its review of the second follow-up report.
<i>February 2005</i>	Office of the Auditor General issues its third follow-up report to the Select Standing Committee on Public Accounts.

## Appendix B

### *Select Standing Committee on Public Accounts*

#### *– Legislative Assembly of British Columbia: Guide to the Follow-Up Process*

#### About the Committee

The Select Standing Committee on Public Accounts is an all-party select standing committee of the Legislative Assembly. The committee is currently composed of 14 members, including a Chair and Deputy Chair. The committee is supported in its work by the Office of the Clerk of Committees, which provides procedural advice, and administrative and research support.

The committee's Terms of Reference include, but are not limited to, the following powers:

- Consider all reports of the Auditor General which have been referred to the committee by the Legislative Assembly
- Sit during a period in which the House is adjourned or recessed
- Send for persons, papers and records
- Report to the House on its deliberations.

#### Committee Meetings

Dates of committee meetings are posted on the Legislative Assembly web site at [www.leg.bc.ca/cmt/](http://www.leg.bc.ca/cmt/). Committee proceedings are recorded and published in *Hansard*, which is available on the same web site.

The Auditor General and the Comptroller General are officials of the committee, and are usually present at committee meetings. During meetings, representatives of the Auditor General's office make a presentation of their audit findings.

Representatives of audited organizations also attend as witnesses before the committee, and provide information to the committee regarding actions taken to address the Auditor General's recommendations. Following each presentation, committee members are provided with the opportunity to ask questions of witnesses. Members of the Legislative Assembly may examine, in the same manner, witnesses, with the approval of the committee.

After initial consideration of a report, the committee often wishes to follow-up the progress made in implementing the Auditor General's recommendations, or recommendations made by the committee to the House, and adopted by the House. The procedures for follow-up reviews carried out by the Auditor General are outlined below.



## The Follow-up Process

1. About twelve months after an audited organization's appearance before the committee, representatives of the Auditor General's office will request representatives of the audited organization that a progress update be provided to the Office of the Auditor General within a period of time (usually one month).
2. Audited organizations must prepare a written response in the format noted below, and direct it to the Office of the Auditor General. In drafting the written response, organization representatives may wish to consult with the Office of the Comptroller General, and/or the Office of the Auditor General. As well, the Office of the Clerk of Committees would be pleased to answer any questions regarding the work of the committee, and committee procedure.
3. All written responses submitted by audited organizations are reviewed by the Office of the Auditor General to confirm the fairness of information about the progress made in implementing the recommendations contained in the Auditor General's report.
4. After completion of his review, the Auditor General issues a report to the Legislative Assembly, which includes the Auditor General's opinion on the status provided by the organization. The report is referred to the Select Standing Committee of Public Accounts.
5. Following review of the Auditor General's report, the committee may request that representatives of the audited organization appear before the committee to provide further information, or that further information be provided to the committee in written form.
6. The Office of the Comptroller General will arrange for witnesses to attend where the committee has asked for a presentation based on the written followup.

## Format of Written Responses

Written follow-up information prepared by audited organizations in response to a request from the Office of the Auditor General should include the following items:

- Date of the written response.
- A brief introduction to and summary of the topic being considered, including a reference to the period during which the audit was conducted, date(s) the audit was considered by the Public Accounts Committee, and how many of the recommendations have been fully implemented, substantially implemented, partially implemented, alternative action taken and no action taken to date.

- A brief response to each recommendation made by the Auditor General and by the Public Accounts Committee (unless specifically advised to address only particular recommendations), including all actions taken to implement each recommendation.
- A work plan for implementation of the Auditor General's and the Public Accounts Committee's recommendations, including information on the means by which each recommendation will be implemented, time frames for implementation, identification of branches with primary responsibility for implementation, and procedures in place to monitor progress in implementing the recommendations.
- Any other information relevant to the Auditor General's or Public Accounts Committee's recommendations, including planned or current projects, studies, seminars, meetings, etc.
- Contact information for ministry/government organization representatives who have primary responsibility for responding to the Auditor General's and Public Accounts Committee's recommendations (name, title, branch, phone and fax numbers, e-mail address).
- The reports are to be signed by a senior official responsible for the area, normally a Deputy Minister, an Assistant Deputy Minister or Vice-President.
- Reports should be relatively brief (e.g. 5–10 pages), although attachments are acceptable. If guidance is needed in preparing the follow-up report, please contact any of the offices noted below.

### Contact Information:

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## Appendix C

### *Office of the Auditor General: Follow-up Objectives and Methodology*

#### Purpose of Following Up Audits

The Office conducts follow-up reviews in order to provide the Legislative Assembly and the public with information on the progress being made by government organizations in implementing the recommendations arising from the original work.

Performance audits are undertaken to assess how government organizations have given attention to economy, efficiency and effectiveness.

The concept of performance audits is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

#### The Nature of Audit Follow-ups

A follow-up of an audit comprises:

1. requesting management to report the actions taken and to assess the extent to which recommendations identified in the original audit report have been implemented;
2. reviewing management's response to ascertain whether it presents fairly, in all significant respects, the progress being made in dealing with the recommendations;
3. determining if further action by management is required and, consequently, whether further follow-up work by the Office will be necessary in subsequent years; and
4. reporting to the Legislative Assembly and the public the responses of management and the results of our reviews of those responses.

#### The Nature of a Review

A review is distinguishable from an audit in that it provides a moderate rather than a high level of assurance. In our audits, we provide a high, though not absolute, level of assurance by designing procedures so that the risk of an inappropriate conclusion is reduced to a low level. These procedures include inspection, observation, enquiry, confirmation, analysis and discussion. Use of the term "high level of

assurance” refers to the highest reasonable level of assurance auditors provide on a subject. Absolute assurance is not attainable since an audit involves such factors as the use of judgement, the use of testing, the inherent limitations of control and the fact that much of the evidence available to us is persuasive rather than conclusive.

In a review, we provide a moderate level of assurance by limiting procedures to enquiry, document review and discussion, so that the risk of an inappropriate conclusion is reduced to a moderate level and the evidence obtained enables us to conclude the matter is plausible in the circumstances.

### Scope of Audit Follow-ups

The follow-ups focus primarily on those recommendations that are agreed to by management at the time of the original audit or study. Where management does not accept our original recommendations, this is reported in managements’ responses to the original audit reports. Since our reports are referred to the Legislative Assembly’s Select Standing Committee on Public Accounts, management’s concerns with our recommendations in some cases are discussed by the committee, which may also make recommendations for future action. If the committee endorses our recommendations, we include them in a follow-up. We also include any other recommendations made directly by the committee.

### Frequency of Reporting on Audit Follow-ups

We follow the process agreed to between the Office of the Auditor General, the Office of the Controller General and the Public Accounts Committee (Appendix B).

### Review Standards

We carry out our follow-up reviews in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants.

## Methods of Obtaining Evidence

Our reviews involve primarily enquiry, document review and discussion.

Enquiry consists of seeking appropriate information of knowledgeable persons within or outside the entity being audited. Types of enquiries include formal written enquiries addressed to third parties and informal oral enquiries addressed to persons within the entity. Consistent responses from different sources provide an increased degree of assurance, especially when the sources that provide the information are independent of each other.

Document review consists of examining documents such as minutes of senior management meetings, management plans, and manuals and policy statements to support assertions made in management's written report.

Discussion consists primarily of interviews with key management and staff, as necessary, for further verification and explanation.

## Appendix D

### *Office of the Auditor General: 2004/2005 Reports Issued to Date*

#### Report 1 – April 2004

##### Follow-up of Performance Reports:

- Managing Interface Fire Risks
- Transportation in Greater Vancouver:  
A Review of Agreements Between the Province and TransLink,  
and of TransLink's Government Structure

#### Report 2 – June 2004

##### In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers

#### Report 3 – October 2004

##### Preventing and Managing Diabetes in British Columbia

#### Report 4 – October 2004

##### Internal Audit in Health Authorities: A Status Report

#### Report 5 – October 2004

##### Salmon Forever: An Assessment of the Provincial Role in Sustaining Wild Salmon

#### Report 6 – November 2004

##### Leading the Way—Adopting Best Practices in Government Financial Reporting 2003/2004

#### Report 7 – November 2004

##### Monitoring the Government's Finances Province of British Columbia

#### Report 8 – December 2004

##### Follow-up of Managing Contaminated Sites on Provincial Lands

Report 9 – December 2004

Follow-up of Two Health Risk Reports:

- A Review of Performance Agreements
- Information Use in Resource Allocation

Report 10 – February 2005

Building a Strong Public Service: Reassessing the Quality of the Work Environment in British Columbia's Public Service

Report 11 – February 2005

Follow-up of A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Report 12 – March 2005

Follow-up of 2000/2001 Report 4: Management Consulting Engagements in Government

This report and others are available on our website at  
<http://www.bcauditor.com>



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