

# Putting Principles in Practice — An Auditor’s View

Readers of CCAF Update should be familiar with the performance reporting principles recently published by CCAF. [See textbox below & [http://www.ccaf-fcvi.com/html/english/reporting\\_principles\\_entry.html](http://www.ccaf-fcvi.com/html/english/reporting_principles_entry.html)] The new level of reporting that is predicted by these principles will be much more focused on fewer things that really matter to Canadians, much more penetrating in its discussion of those things, and much more transparent about the basis on which rests, its strengths and its limitations.



*Errol Price, Senior Principal, Office of the Auditor General of British Columbia*

*Nine Principles that define*  
**BETTER PERFORMANCE REPORTING**

- 1 FOCUS ON THE FEW CRITICAL ASPECTS OF PERFORMANCE**
- 2 LOOK FORWARD AS WELL AS BACK**
- 3 EXPLAIN KEY RISK CONSIDERATIONS**
- 4 EXPLAIN KEY CAPACITY CONSIDERATIONS**
- 5 EXPLAIN OTHER FACTORS CRITICAL TO PERFORMANCE**
- 6 INTEGRATE FINANCIAL AND NON-FINANCIAL INFORMATION**
- 7 PROVIDE COMPARATIVE INFORMATION**
- 8 PRESENT CREDIBLE INFORMATION, FAIRLY INTERPRETED**
- 9 DISCLOSE THE BASIS FOR REPORTING**

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Advancing to this level would represent significant change for even the most advanced of current reporting. Such change takes sustained leadership and support from many points in the system and from many stakeholders in the reporting process. Legislators, managers, measurers and auditors all have a stake, and a say, in the evolution of public reporting. Each of these stakeholders will have a different view of the costs, the benefits, and the implications of making advances to the new level of reporting.

We asked Errol Price for an auditor’s view of costs, benefits and implications of using reporting principles to advance the quality of reporting. As a Senior Principal in the Office of the Auditor General of British Columbia, Errol has played a lead role in the development and conduct of its approach to matters of accountability, performance management and performance auditing. Over the last year, Errol used the emerging CCAF principles as the basis for an innovative approach to the audit of the public performance reporting of the Public Guardian and Trustee of British Columbia. We asked Errol about lessons learned from his experience as an auditor innovating with these principles.

**UPDATE: *Innovation usually involves risk. What risk/reward considerations underlay your approach?***

**Errol Price:** Wayne Strelieff, the Auditor General, wanted to be supportive of a public reporting initiative in its infancy — while retaining the Office’s objectivity and credibility. We knew from experience in other jurisdictions that unrelentingly negative audit conclusions at an early stage in the evolution of reporting can easily have a ‘chilling’ effect on the kind of innovation, learning and continuous improvement that organizations have to work through to get their reporting right. But auditors would put their credibility at risk if they were to provide a positive opinion on anything less than an ideal performance report, or if they were to step too far out of their audit role to act as consultants. The lack of agreed standards for reporting automatically increased the level of our risk, and our discomfort.

But we also believed that audit can add value, both as a way of establishing the credibility of what is reported and as a catalyst for movement toward what should be reported. The legislation under which we were working provided a degree of flexibility about how we should proceed. So our challenge was to find the hard middle ground — an approach that would:

- demonstrate that positive audit assurance can be provided on reporting, from its infancy;
- show how audit processes can enhance the value of reported information, in both the short and longer terms;
- employ standards and methodology that would contribute to the credibility of our work and the Office;
- be transportable and transferable to other situations.

**UPDATE: *What was the approach that you came up with, and what role did the CCAF principles play in its development?***

**Errol Price:** We developed what we described as a “learning model”. This married the draft<sup>1</sup> CCAF principles to a four-stage developmental scale. For each of the principles, we asked ourselves what indicators of progress we would expect to see when the organization was:

- just starting to apply the principle — we call this the “Start Up” stage;
- actively and demonstrably moving toward application of the principle — In Process;
- substantively meeting the principle — we call this the “Fundamentals in Place”;
- fully applying the principle, at a level of excellence — “Fully Incorporated”.

The result was, in effect, a matrix that allowed us to get behind the high-level principles and flesh out what they mean in practice.

Having this matrix allowed us to develop a more nuanced audit approach that recognizes that good reporting will not happen overnight — it takes time to develop the capacity and the infrastructure needed to support it. Rather than assess simply whether or not we felt the report “presented fairly” the performance of the Public Guardian, we informed readers about the stage of implementation reached in respect of each of the principles. [Click here](#) to access the report of the Public Guardian and Trustee, (which includes the report of the Provincial Auditor General on it). For a fuller description of the audit approach that we developed [click here](#).

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<sup>1</sup> *At the time OAG BC was developing its approach, the CCAF principles were still under development and had yet to reflect the input of legislators. Pursuant to their input, CCAF adjusted the published formulation of the principles from the earlier draft principles to: 1) put more emphasis on reporting about the value-added for Canadians (rather than about the organization); 2) specify that reporting should reflect managements best interpretation of available data; 3) provide greater emphasis and profile for disclosures of “risk”, “capacity” and “other matters” than as elements of context; and 4) illustrate how individual principles might be engaged at different levels.*

The CCAF principles provided the foundation for our approach. There are no generally accepted standards for public performance reporting as yet, but we felt that the draft work CCAF had issued represented the closest thing and the best available framework for our assessment..

**UPDATE:** *How did you balance the need for a rigorous assessment process with the possibility of different ways to apply the same principle? Could an organization, for example, reflect all the indicators of progress in your matrix and still end up with an overall negative conclusion regarding the application of a principle (or vice-versa)?*

**Errol Price:** Clearly there is no such thing as a “one and only” way to report on performance, nor is it possible to eliminate uncertainty in reporting. It is up to each organization to tell its performance story in a way that makes sense for it — the principles provide a good framework for management to check that its judgment has been exercised soundly in telling the story. Similarly, we looked on the principles as a framework both for talking with management about their approach to reporting issues and for the exercise of our professional judgment around the report.

We treated the indicators of progress as suggestive rather than conclusive — not as strict sub-criteria. We wanted to avoid a checklist approach or mentality. Rather, we approached the audit program and work from two angles: is the information there; and do we understand it? Based on this review of the report itself plus some on-site work to gain an appreciation of systems, we decided on the appropriate stage of development for each principle. Because of the significant level of professional judgment involved, we used a three-person team to carry out these assessments. All members of team had to agree final assessments.

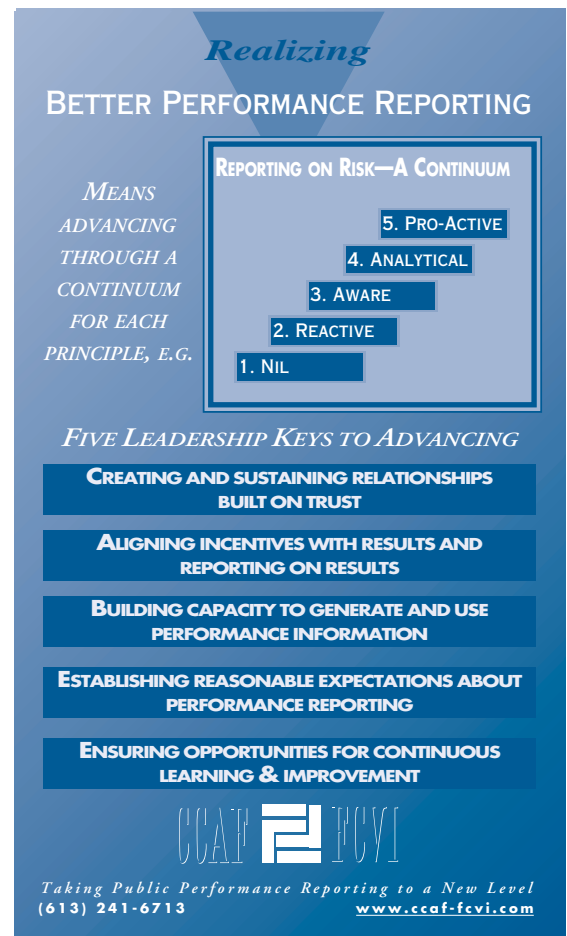
So it would be possible, especially at this early stage in the development of our approach, to have all the “forms” in place without the substance being fully satisfied. While that is a theoretical possibility, it did not in fact occur.

**UPDATE:** *Which was the most difficult principle to apply/come to a judgment about?*

**Errol Price:** The element of the matrix that was most difficult to develop was the one dealing with the principle that resources, strategies and results should be linked to one another (through the integration of financial and non-financial information). We found it very difficult to specify indicators that would show:

- what reporting will it look like when this is done properly; and
- what is reasonable to expect as progress takes place.

Especially for this particular principle, we would expect management’s reporting (and our assessment matrix) to change significantly as more experience is gained with putting the principle into practice.



*UPDATE: Where or how did the exercise of working through the CCAF principles add the most value to you?*

**Errol Price:** It confirmed that if properly applied, principles have the potential of significantly improving public performance reporting. It gave us a basis for discussing expectations with management and for the emergence of shared expectations between us as stakeholders in the reporting process. In this case, for example, management had gone some way toward developing the report before we introduced the principles. Even when introduced at a late stage, the principles were useful in helping to sharpen the strategic focus of the reporting and to improve the link between plans and results.

We expect that they will now help management and ourselves to move to the next level, improving and confirming the relevance of the measures selected and their reliability.

*UPDATE: What is the most important lesson that you have taken from this experience?*

**Errol Price:** It is important to have agreement — at the level of principles — as a basis for discussing different viewpoints and interpretations later on. The CCAF principles worked — they provided a good framework to organize thinking about the reporting, and they provided a good framework to assess the report. The requirement to focus on results is having a very positive impact on the performance of PGT and, although the CCAF principles weren't in existence at the start of the exercise, they are helping to channel and sustain that impact.

From an audit viewpoint, we learned that it is pretty important to have good “knowledge-of-the-business” of a nature and at a level that may go beyond and be quite different than that acquired through the financial audit.

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*On behalf of Update readers, CCAF wishes to extend its appreciation to Errol Price for taking the time to explain the innovative approach developed for the Office of the Auditor General of British Columbia and for sharing his views and advice related to his experience with the application of CCAF's work on reporting principles.*