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Developing Reporting Phase of the VFM Audit Process

Strategic Paper by
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Executive Summary

According to the new Constitution and new *Audit Act* 1999, the Office of the Auditor General (OAG) of Thailand is a constitutional agency, as well as an autonomous and independent statutory body. The OAG of Thailand submits an annual report on work performance of the Office directly to the House of Representatives, the Senate, and the Council of Ministers for consideration. It is very important that the report be of high quality, credible, and timely. The report is a matter of interest to both Parliament and the public. They expect to know that the money of the people is being spent wisely and effectively.

This strategy paper focusses on developing an approach for the reporting phase of the value-for-money audit process for Thailand. The paper describes the practical steps in reporting value-for-money audits in the OAG of Canada and discusses how to implement some of the relevant steps in the OAG of Thailand.

The first step is to ensure that the key players understand how to produce a high-quality report on time. After that, developing the relevant tools is necessary to assist the auditors in producing these reports.

The OAG of Thailand needs to revise manuals, guidelines, templates, and communication tools currently used in value-for-money audit (performance audit) in order to maintain the quality and effectiveness of the report. In addition, the Office needs to encourage continuous learning through “lessons learned” to support and strengthen its production of high-quality value-for-money audit reports.

1. Introduction

According to the new Constitution 1997 and Organic Act on State Audit 1999, the Office of the Auditor General (OAG) of Thailand has the responsibility to report the results of its work to the House of Representatives, the Senate and the Council of Ministers for consideration normally once a year. The Office may also report during the year when warranted.

Parliament expects that the government will carry out its wishes, spend money with regard to attaining value for money, and measure the effectiveness of approved programs. The government needs credible and understandable information for making decisions on the appropriate roles and activities of government agencies. The people need to be assured that public funds are spent wisely and effectively and in compliance with authority and accountability. Government needs to be accountable for its performance.

Value-for-money (VFM) audit (called “performance audit” in Thailand) is one of the best ways for the OAG to fulfill these responsibilities. The reputation and credibility of the OAG depends to a great extent on the quality of its reports.

I would like to propose a “Strategy for the Reporting Phase of the VFM Audit Process” based on experience gained from observing the reporting of VFM audits to Parliament in Canada.

2. Objective of the strategy paper

The purpose of this paper is to develop

- a strategy for the Reporting Phase of the VFM Audit Process for Thailand, and
- a proposal for implementing the strategy.

This paper also describes the Reporting Phase in the OAG of Canada since it provides some insights into how the OAG of Thailand can improve.

3. Expected outcomes

With this new Reporting Phase in Thailand we expect

- to better fulfill the OAG’s mandate,
- to make audit reports more effective, and
- to maintain the credibility and reputation of the Office.

4. The Office of the Auditor General of Thailand

4.1 Background

Under the new Thailand Constitution promulgated on 11 October 1997, the Office of the Auditor General (OAG) of Thailand is a **constitutional agency** responsible for setting up a publicly financed auditing commission. The Office is an **autonomous** and **independent** statutory body. The new legislation on government auditing in Thailand's present Constitution was set up in 1999 and is called the Organic Act on State Audit 1999. The fiscal year of Thailand occurs between 1 October and 30 September.

4.2 Structure of the organization

Under the Thailand Constitution, the mandate of the OAG shall be carried out by the Audit Commissioners and the Auditor General, who is independent and impartial.

The **Audit Commissioners** consist of the chairman and nine members appointed by the King, with advice of the Senate; they are persons with expertise and experience in audit, accounting, internal audit, finance, and other fields. The Audit Commissioners hold the office for a term of six years and can serve for only one term.

The **Auditor General** is appointed by the King upon approval by the Senate and can hold office for one term of five years or until attaining 65 years of age. She/he is responsible for the secretarial work of the Audit Commissioners and the conduct of the OAG.

The **OAG** is independent in recruiting its staff and submits its budget estimate to the Council of Ministers in accordance with the resolution of the Audit Commissioners. This is for the purpose of appropriating subsidies to the Audit Commissioners and to the OAG in the annual appropriations bill. (See Appendix 1-Organization Chart)

4.3 Powers and duties of the Audit Commissioners

The powers and duties of the Audit Commissioners include the following:

- formulating audit policies;
- prescribing standard rules for the audit;
- prescribing rules and procedures for budgetary and financial disciplines;
- giving advice and making recommendations and suggestions for correcting defects in relation to the audit;
- prescribing administrative penalties, and in the capacity as the supreme organ, considering and determining budgetary and financial disciplinary liability;
- considering and selecting a person suitable to be the Auditor General;
- other activities as provided by the Organic Act, such as the following;

- giving advice to the President of the National Assembly on the powers and duties of the Audit Commissioners and the OAG;
- providing recommendations to administrative organs with regard to amendment of laws and rules or regulations concerning the control of state finances;
- issuing rules or notifications prescribing the standards or measures related to the system and the control of an auditees' budget administration audit;
- making suggestions to an auditee for remedying defects or performing consistently with the laws, rules, and regulations; and
- exercising supervision and serving as the supreme adjudicatory organ in the budgetary and financial disciplinary process.

4.4 Powers and duties of the OAG

The powers and duties of the OAG are related to the general affairs of the Audit Commissioners and include the following:

- responsibility for the secretarial work of the Audit Commissioners; and
- conduct of the OAG, as follows:
 - a. to audit receipt and payment, the retention, and disbursement of money and other properties belonging to or being within the responsibility of an auditee and give opinions as to whether it is in compliance with the laws, rules, regulations or resolutions of the Council of Ministers; as it wishes, to audit the disbursement of money and other properties or the procurement under a given plan, work, or project of an auditee and give opinions as to whether it is in compliance with the objectives, is economical, has achieved its goals, and appears worthwhile. In the case where an auditee is a state enterprise, opinions shall be given in accordance with the generally recognized auditing standards;
 - b. to audit accounts and reports on receipt and payment of money under the annual appropriations and statements indicating the financial status in the fiscal year and to give opinions as to whether they are in compliance with the law and meet actuality standards;
 - c. to audit the annual currency reserve account and give opinions as to whether it is in compliance with the law or meets actuality standards;
 - d. to study and give opinions on action plans, work, and projects affecting the preparation of budgets;
 - e. to conduct an audit of the collection of taxes, duties, fees, and other revenues of the auditee;

- preparing an annual report on work performance of the OAG for submission to the House of Representatives, the Senate, and the Council of Ministers;
- monitoring the operation of the auditee upon proposal of the OAG as made in the annual report on work performance; and
- performing other duties as prescribed by laws.

4.5 Current situation

According to the OAG's responsibilities that I have mentioned in the **Introduction**, the OAG must provide an efficient, effective, and economic service to Parliament and associated bodies on both financial and VFM audits, and other related audit work, with the aim of helping the public sector to spend wisely.

The OAG's reports become a matter of public record and cover a wide range of issues of interest to Parliament and the public. Having one OAG report to the National Assembly is an efficient and effective means of ensuring that Parliament receives the information it needs to hold government accountable.

Reporting is a key part of performance reviews, so the reports must inspire confidence if they are to be effective.

Although the OAG of Thailand has had a long experience conducting VFM audits, most of the auditors in the Office are still more familiar with financial audit because of their accounting background and experience in financial auditing. However, the Office has a goal to strengthen its VFM audits, including improving the quality of its reports.

4.6 History of the organization's role in VFM Audit

VFM audit, or performance audit, was first officially introduced to the OAG of Thailand more than 20 years ago under the *State Audit Act 1979*. The Office established the new division and named it the Performance Audit Division. This division was initially responsible for VFM audit only; however, rotation obstructed its progress, and the Office's support to VFM auditors has been inconsistent and insufficient.

5. Strategy for the reporting phase of the VFM audit process

5.1 Understanding the VFM reporting phase

The first step in the strategy is for auditors to obtain an understanding of the VFM reporting phase, which consists of the reporting process and relevant activities.

5.1.1 The VFM reporting process

Reporting is an extremely important part of the VFM audit cycle. It is also a legislative requirement and, therefore, a report from the OAG is the expected outcome of any performance review. Effective reporting is essential if the OAG is to convey accurately and positively how economically, efficiently, and effectively the entities have performed. The main points of effective reporting are the following:

- Keep report as brief as possible, bringing out only the most important matters. Avoid the temptation to include every detail; select only the information that is required.
- Develop a strong, clear report structure, covering the main issues.
- Use simple, direct, and unambiguous language.
- Concentrate on the reasons why things are done, how well they are controlled, and the value for money achieved, rather than on descriptions.
- Use clear evidence and well-chosen examples to strengthen the messages in the reports.

This final stage of the VFM audit involves reaching conclusions based on the detailed examinations, making recommendations, and drafting the report. Preparation of the draft report should proceed through a number of further steps. Consultation with internal and external advisors should begin during the planning stage and continue throughout the fieldwork and reporting stages. All draft reports should be cleared at the appropriate level with the audited entity.

The process of VFM reporting in the OAG of Canada begins in the planning phase. As budgets are finalized at the time the examination plan is prepared, the planning of the reporting phase is done as part of examination plan exercise. Planning activities include developing a general outline for the audit report, developing a strategy for clearance of facts and setting the time for clearance, and briefing of the Auditor General.

When examination activities are completed, the audit team must prepare the audit report in accordance with VFM audit reporting policies of the Office, with the report providing key contents clearly, being of high quality and on time, and ensuring confidentiality and security. The roles and responsibilities of the key players need to be identified, including key milestones and control points. The following are the important steps and t-minus dates of the reporting process of the OAG of Canada (t-minus dates refer to the time frame set up to complete every step of VFM audit process, calculated by the number of weeks and backdated from the anticipated date of reporting to Parliament):

- **Examination report or internal draft (t-18)**

An internal draft is prepared by audit team and reviewed by the Team Leader (Principal), Assistant Auditor General (AAG), Audit Advisory Committee, Quality Reviewer, Editorial Services, and Legal Services.

- **Team Leader's (Principal's) draft (t-15)**

The Team Leader's draft is the internal draft revised on the basis of all the reviews from advisors. It should be reviewed by the AAG and Auditor General (if deemed necessary by the VFM Management Committee), Functional Responsibility Leaders (FRLs), Product Leaders (PLs), Subject Matter Expert (SMEs), the Quality Reviewer, the Audit Advisory Committee, Editorial Services, and Legal Services. The draft should also be reviewed by key personnel in the audited agency and receive third

party clearance (before going to the auditee). Communications is contacted for feedback on possible media issues.

- **Transmission draft (DM draft)(t-9)**

The transmission draft is the update of the Team Leader's draft after receiving all review input, including third party clearance and discussion with departmental officials. This draft is sent to the Head of the audited organization for formal sign-off and a formal response to the Auditor General's recommendation.

- **Prepare AG briefing material (t-7)**

- **Final approval form (t-6)**

This form prepares the chapter for formal sign-off by the Team Leader (Principal), Legal Advisor, AAG, Quality Reviewer, and approved by the Chair or Co-chair of the VFM Management Committee before sending the chapter to Editorial Services to prepare it for publication.

- **News Release Distribution List (t-4)**

- **Published report (t-0)**

The report is tabled in Parliament.

- **Accountability report (t+4)**

The accountability report is prepared by the Team Leader within one month after submitting the report to Parliament. This report compares the original audit objectives, budgeted hours, and costs with the results of the audit and actual budgeted hours and costs, providing an explanation for any differences. Critical to this report is the "lessons learned" section, which enables improvements in future audits.

Some of the best practices of the reporting process in the OAG of Canada that ensure a **high-quality report on time** include **consultations, the Audit Process Control Map, the Process Control Framework (t-minus dates), and tools for auditors.**

The OAG of Canada has established an extensive process of consultation and advice from both internal and external sources. There are three categories of internal leaders/specialists available to the audit team to provide consultation and expert advice:

- Functional Responsibility Leaders (FRLs);
- Product Leaders (PLs); and
- Subject Matter Experts (SMEs)

FRLs are responsible for areas directly related to the Office's mandate. As specialists in key areas such as human resources and result measurement, they both conduct audits and provide guidance to audit teams. Product leaders are responsible for recommending

methodology, Office policies, and related revision of guidance to the Professional Development Committee for approval. They are available to audit teams for consultation in their areas of specialty such as attest audit, VFM audits, and assessment of performance reports. SMEs are responsible for advising and assisting audit teams on matters related to their specialized knowledge and skills and conducting audits in their areas of expertise, such as accountability, fraud, risk management, and national security.

In addition to those mentioned above, the VFM-Management Committee, the Quality Reviewer, and the Audit Advisory Committee are also important advisors in all audit processes.

The VFM Management Committee, on behalf of the Auditor General, carries out its reviews to ensure that the quality of work meets the standards of the Office. This committee reviews the Final Approval Form for VFM audits prepared by the Team Leader (Principal) and reviewed by the line AAG and recommends the chapter for publication in the Report of the Auditor General.

The Quality Reviewer is a senior manager chosen by the AAG and is not a member of the audit team. This person provides advice on the risk areas, including appropriateness of the conclusion in the chapter and ensures that all stages in the audit process have been followed. When advice is given, the Quality Reviewer ensures that it has been followed or, if rejected, that this has been explained. These responsibilities are carried out primarily through discussion with the audit team and review of selected working papers.

The Audit Advisory Committee consists of members from both inside and outside the Office who are selected on the basis of their skills, insights, relevant knowledge, and experience. Outside advisors are recognized as leaders in their fields of expertise. They provide advice to the AAG on the scope and objectives of the audit.

The OAG of Canada has established a good accountability process and developed various tools to assist the auditors throughout their audit work. These include the Audit Process Controls Map, the Process Control Framework or t-minus dates, the Final Approval Form, and other knowledge tools on the INTRAnet. With these tools, the auditors can conduct their work according to the control process and guidelines, further enabling them to produce a high-quality report on time.

5.1.2 How the planning process affects the reporting process

The planning process is the first step in starting a VFM audit. The team uses its professional judgment to decide on audit objectives, scope, approach, criteria, and methodology. The reporting process is to present findings and conclusions in accordance with the purpose of the audit objective and report on the result of the audit work. So if the planning process is not effective, it will dramatically affect the reporting process. In other words, the audit conclusion in the reporting process must be against the objectives set out in the planning process.

5.1.3 Checks, balances, and quality controls for reporting

The reporting phase of the audit requires a careful analysis of the results of the examination. A rigorous review process is very important and all scope statements should clearly state what was included in audit. All aspects of the issues should be presented clearly, and facts and figures should be supported by sufficient audit evidence. In the OAG of Canada, audit teams ensure substantiation, and there are checks by the directors and principals to ensure that nothing reported or said by the Auditor General cannot be fully supported by evidence.

The quality controls for reporting of the OAG of Canada consist of the following:

- Quality Reviewer (see page 9);
- External Standards, that is, CICA (Canadian Institute of Chartered Accountants) Handbook Assurance;
- Professional Practice Group (PPG), who conducts internal quality reviews of VFM audits;
- External review of the VFM Practice in 2004 by a group of international audit offices such as the UK and USA ;
- Annual VFM symposium, Practice Development Committee (PDC), and ongoing training (for example, VFM I and VFM II courses); and
- Post VFM Audit Survey, which the OAG of Canada is currently developing to obtain feedback on its value-for-money audits. There are five specific survey objectives, as follows:
 - value of audit to the entity
 - entity burden
 - expertise of auditors
 - professionalism of auditors
 - quality of the audit report

The OAG of Canada also established the **Key Milestones Timetable** (Appendix 2), **VFM Audit Process Controls Map** (Appendix 3), **Final Approval Form** (Appendix 4), and **various templates and guidelines**, including **consultation** to assist the auditors in producing their quality reports.

Finally, it is important that a high-quality audit report include clear and well written recommendations. This will help to ensure the desired impact on the entities and that resources are used efficiently and effectively.

5.1.4 Methods of ensuring clarity

The purpose of the report is to achieve positive change. The requirement for clear communications is that messages need to be

- clear and precise and written in plain language to ensure that the reader will understand what the report is trying to achieve;
- convincing with their importance highlighted for the reader;
- fair and presented in an unbiased tone, noting where management has taken actions to correct the deficiencies and pointing out exemplary performance;
- related to matters of significance; and
- able to be strongly supported by evidence.

5.1.5 Public relations

Since the OAG of Canada's report has become a matter of public record and covers a wide range of issues, the Office established the Director of Communication to be responsible for all contacts with the media. Any requests by journalists to talk to audit teams should first be co-ordinated with Communications. When dealing with the media, the goal of the Office is to be frank, open, and politically neutral, as with all external communication. The aim is to help the media and the public appreciate the significance of the Office's messages to Parliament.

5.1.6 Reporting to Parliament

The different ways of reporting in countries depend to some extent on their legislation on government auditing. The OAG of Canada reports on its VFM audits periodically to Parliament (House of Commons) normally three times a year – in April, September, and December. If the Auditor General deems it necessary, she may make special reports to the House of Commons at other times. The September Report focusses on audits of the environment and sustainable development. In May, the OAG tables a Status Report, which follows up on audits done two years earlier. Tabling day is the day the Auditor General formally presents the Report to Parliament. The Speaker of the House of Commons is given the Report by the Auditor General earlier in the day so that it can be put on the table in the middle of the chamber, hence "Tabling of the Report". The content of the Report cannot be released to the public prior to tabling. Therefore, **audit teams cannot discuss their audit findings with persons not involved in the audit.**

5.2 Roles and responsibilities of the key players in the reporting phase

The second step of this strategy paper is to suggest suitable roles and responsibilities of the key players for the OAG of Thailand. According to the new organization structure, the OAG of Thailand conducts VFM audits in every audit office, including the regional audit offices, which is approximately 10 percent of all audit work. This paper proposes the key players who should be involved in the reporting phase of the VFM audit process in all of audit offices and regional audit offices. These are as follows:

- an audit team, which consists of a Team Leader (C8), Team Supervisor (C7), and Team members (C3-6)
- the Quality Reviewer, which consists of a group of three people (C8)
- Director (C9)
- Deputy Auditor General (DAG, C10)

Internal and external advisors play a consultant role. Legal Office and Reports Group play a role as supporter of the key players. The roles and responsibilities of the key players are as follows:

Key players	Roles and Responsibilities
Team Supervisor	<p>Carry out the responsibilities assigned to them by their Team Leaders; these should include the following:</p> <ul style="list-style-type: none"> -prepare an outline of the reports, discuss with the Quality Reviewer, and obtain approval of Team Leader and Director; -supervise the preparation of a working paper; -prepare the first draft and discuss Main Points with the Quality Reviewer and submit to Team Leader for review.
Team Leader	<p>The head of an audit team; responsibilities should include the following:</p> <ul style="list-style-type: none"> -prepare audit reporting process; -review and submit first draft to Quality Reviewer, Director, Audit Advisory Committee, and Legal Office for review and comment; -revise first draft, as required, as review input is received; -submit to Director for review; -prepare briefing packages on the audit for Audit Advisory Committee, Executive Committee, and DAG/Auditor General /Audit Commissioners, and prepare accountability reports and news releases; -determine the relevant extracts that should be sent to third parties;

	<ul style="list-style-type: none"> -complete appropriate section of the final approval form and have it signed by Director; -update first draft to final draft; -arrange to meet with departmental officials after the final draft is approved by the Director, and DAG /Auditor General; and -prepare final report and send it to Reports Group to edit and check.
Quality Reviewer	<p>Independent from the audit team and responsible for all auditing processes, including the reporting phrase, as follows:</p> <ul style="list-style-type: none"> -provide advice to audit team but do not make a decision; -handle contentious issues that may arise during the audit; -consult on the nature and extent of consultation by the audit team; -discuss the outline with audit team to ensure that a story is or will be told in a logical order; -discuss the Main Points of the first draft in the following areas: <ul style="list-style-type: none"> -sufficiency and appropriateness of evidence, particularly in relation to high risk findings; -recommendations are results-focussed and action-oriented; -conclusion is drawn against the objectives; and -discussions are carried out with third parties if necessary.
Director	<p>Head of the Audit Office or Regional Audit Office who has overall responsibility for auditing the entity, managing the entire audit cycle and the team of auditors, and ensuring the quality of audit products produced by audit team. The responsibilities include the following:</p> <ul style="list-style-type: none"> -maintain adequate knowledge of the

	<p>organization or function;</p> <ul style="list-style-type: none"> -lead the audit team, delegating responsibilities, monitoring progress, and reviewing performance; -seek counsel and expert advice throughout the audit; -review the first draft, final draft, and final report; -submit draft to DAG/Auditor General; -involve the DAG, Quality Reviewer, Audit Advisory Committee, and Executive Committee on all important audit matters and documenting decisions; and -send the final draft to the Head of the audited entity for formal response.
Deputy Auditor General	<p>The DAG oversees all aspects of the audit, including the following:</p> <ul style="list-style-type: none"> -give advice and counsel to the Director and audit team; -be involved in major audit decisions on entity relations, scope of audit, access problems, complex and contentious issues, reporting on strategy, and review of the report. -submit final report to the Auditor General/Audit Commissioners.

5.3 Developing reporting guidelines for VFM Audits

After setting roles and responsibilities of the key players, the third step of the strategy suggested for the OAG of Thailand is to develop guidelines for reporting to fulfill the above-noted responsibilities and assist the auditors in producing high-quality reports on time. Guidelines should be developed in a systematic way so as to build and use audit tools. The OAG of Thailand should establish key milestones timetables, an audit process control map, a final approval form, draft report templates, and the other templates that are related to the reporting process. The guidelines and templates should be produced by brainstorming with staff who have experience in VFM audit and consulting with internal and external advisors.

5.4 Developing relevant communication tools

Good communication can enhance work outcomes, so the next step after producing guidelines and templates is to develop tools to encourage communication among all staff

of the Office. Communication tools make it easy for the Office and staff to participate in collaborative work and to provide information to the public. These tools are designed to enhance both internal and external communication. The OAG of Thailand should develop the INTRANet home page for internal communications and establish communication teams to co-ordinate responses to public enquiries.

5.5 Encouraging continuous learning through “lessons learned”

It is very important to evaluate audit products and compile lessons learned to continue improving the quality of future products. The OAG of Canada has produced “Closing the Loop” by considering the resources, operational plan, knowledge, and products, and then evaluating what went well and what did not go well (Appendix 4). The accountability report is also a tool used to encourage continuous learning inside the OAG of Canada. This tool is used to assess the effectiveness of the audit and can also provide a self-assessment of how well the Team Leader managed the audit work. In addition, it can identify best practices for each report and use these findings as input into improving methodology.

6. Implementing the reporting phase of the VFM audit process strategy

Steps	Activity	Responsibility	Time Frame
1. Submit this strategy paper to the Auditor General for consideration.	-	-	June 2003
2. Promote understanding of VFM reporting phase to key staffs	Arrange workshop	-Human Resources Office -Audit Standard Research and Development Section	July 7-11, 2003 (1 week)
3. Identify the role and responsibilities of the key players.	Revise job description for staff involved in VFM audit.	Human Resources Office	July 1-30, 2003 (1 month)
4. Develop reporting guidelines for VFM audits.	Arrange workshops to brainstorm with staff who have experience in VFM audit, including advisors both inside and outside the Office.	-Human Resources Office -Audit Office -Information Technology Office -Audit Standard Research and Development Section	August 1-October 31, 2003 (three months)
5. Develop relevant communication tools.	Revise INTRANet Web page.	-Audit Office -Information Technology Office	Nov 1, 2003- January 31, 2004 (three months)

		-Audit Standard Research and Development Section	
6. Encourage continuous learning (lessons learned)	Establish accountability report in every VFM audit.	-Audit Office -Regional Audit Office	When the process of VFM audit is completed.

7. Conclusion

The implementation should be successful if the key staff have a good understanding of the VFM reporting phase. Every step should be supported by all staff and the Office.

Developing guidelines and relevant communication tools are positive changes, which will require good communication and co-ordination among all staff.

Finally, the Office can learn and maintain good practices and improve the areas that are identified as needing improvement by strengthening "lessons learned".