



FORESTS FOR TOMORROW (FFT)

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“FFT AUDITING 101”

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Definition of an Auditor

“An auditor is the guy who comes in
after the battle
to bayonet the wounded.”

FFT Auditing 101 Agenda

- ⦿ 8:15–9:30 Comparison of PwC Audit to MFR FFT Audit Process
- ⦿ 9:30-9:45 Break
- ⦿ 9:45–11:45 The Audit Process
- ⦿ 11:45–12:15 Lunch
- ⦿ 12:15–1:45 The Audit Process cont'd
- ⦿ 1:45-3:00 Audit Findings
- ⦿ 3:00-3:15 Break
- ⦿ 3:15-4:30 Audit Findings cont'd
- ⦿ 4:30-? General Topics

Auditing Basics – What is an Audit?

- ⦿ noun **1. an official examination and verification of accounts and records**, esp. of financial accounts. **2. a report or statement reflecting an audit; a final statement of account**. 3. the inspection or examination of a building or other facility to evaluate or improve its appropriateness, safety, efficiency, or the like.

Dictionary.com Unabridged

- ⦿ **2 : a methodical examination and review** - audit *verb* Merriam-Webster's Dictionary of Law, © 1996 Merriam-Webster, Inc

A Comparison of the PricewaterhouseCoopers (PwC) Audit Process to the Ministry of Forests and Range (MFR) FFT Audit Process

PwC Audit Process – PwC completed two types of audits, financial and performance:

- ◎ **Financial Audits** - Were completed either by Chartered Accountants (CA) or in some instances experienced Forestry Staff. Both methods have merit, CA's have specific procedures that allow them to "follow the money" much easier; while an exp. Forester can better analyze the costs to determine if they are appropriate, i.e., a CA would not necessarily know if charging a Forester rate for payplots would be appropriate.

PwC Audit Process

- ◎ Performance Audits - Were conducted by PwC Staff or by Foresters on contract. Typically performance audits were undertaken post PINES Project Completion Approval; however, on occasion, “during” (or in-stream) audits were also conducted.
 - “During” audits were generally inconclusive in their reporting. In that, the Recipient Agreement Holder (RAH) would simply state that the work was “incomplete” and that any issue uncovered would be “taken care of” prior to completion submission.
- ◎ This resulted in a significant number of performance audits conducted in the spring of the following fiscal. As per the definition of an audit it’s **an official examination and verification of accounts and records** which can only be undertaken once the project is completed, therefore typically April/May of the next fiscal.

PwC Audit Process (Performance Audit cont'd)

- A PwC Performance Audit was comprised of field inspections (where possible and practicable), project office review, and general administrative overview of the RAH Investment Schedule (I.S.) and projects.

MFR Audit Process

MFR Audit Process - As designed by the FFT Audit Team, the MFR Performance Audit Process will take a slightly different approach, comprising five systems: monitoring, in-stream inspections, completion, recipient agreement reviews, and financial audits.

1. **Monitoring** – Informal walk-thru's, checkplots.
 2. **In-stream** – Formal inspection plots.
 3. **Completion** – Formal office project review.
 4. **Recipient Agreement** – Formal office review of general administrative I.S. and project activities.
 5. **Financial** – Formal review of all financial records.
- ⦿ Note: MFR Monitoring, In-stream, & Completion Processes equal PwC's Performance Audit.

MFR Audit Process (cont'd)

1. **Monitoring:** Monitoring would be informal walk-thru's and observations of field activities. Informal in that the RAH may not be necessarily informed of your presence prior to the review. This would not preclude the installation of checkplots, to ensure the work is achieving the required standards.
 - Checkplot data and observations would be recorded on the applicable fieldcards (e.g., FS704) and incorporated into the in-stream audit protocol and audit report.
 - Where an issue is noted and there is still the possibility for it to be corrected, a Notice of Instruction (FS242) would be given to the RAH. A follow-up to ensure the non-conformance has been rectified would be required. If due to circumstances the issue cannot be corrected (e.g., planting contractor has completed the contract and left) the issue becomes a non-conformance and subsequently would be included as a finding within the formal audit.

MFR Audit Process (cont'd)

2. **In-stream Inspections:** An in-stream inspection would be a review of the fieldworks of an activity. It could be performed while the work is ongoing or it may also be conducted post fieldwork completion. It would be a more formal process where you would notify the RAH of the units that you would like to inspect (or come to an agreement on, based on where Crews are working etc.). Typically the RAH is asked to participate in the In-stream Inspections.

1. Discussion Point: Due to the added cost for RAH participation in audits, do you want to make it an open invitation for their attendance on all in-stream audits (potentially very expensive)? Or, do you want to “select invite” the RAH to some in-stream inspections and only require their presence during a 100% audit? Note: Monitoring is intended to be a walk-thru recce of the site and “instruction” for the RAH.

- Formal inspection plots would be performed and recorded on the applicable fieldcards (e.g., FS704). A comparison between the RAH and Inspector results would be performed. RAH must be within acceptable tolerances (e.g., +/-5% PQC for planting).

MFR Audit Process (In-stream Inspections cont'd)

- The FFT Audit Team has determined the minimum required Quality Assurance or Control (QA/QC) for the various activities. E.g., Planting = 5% of payplots and a review of 20% of the project area.
- If the work does not meet the tolerances, non-conformances are assessed and may then instigate a further process of an 100% inspection of the area under non-conformance.
- Note: It is acceptable to perform an inspection while the project is on-going, as long as the work has been completed in the area being inspected. A “release” of the area is not required.
- In addition, as the work has been completed in the area undergoing inspection, findings can be assessed.
- As the in-stream audit can be a formal audit an “Audit Planning Letter” may be required, especially where the RAH is directed to attend the audit.

MFR Audit Process (In-stream Inspections cont'd)

3. **Completion Audits:** Completion audits are conducted once the project has been approved for completion in PINES. The completion audit would include a review of all project files, RAH inspections, and deliverables.
 - This is a formal process and would require an Audit Planning Letter to be submitted to the RAH.
 - Generally a Completion Audit would not require a field inspection. However, if field inspections were not previously performed, then an In-stream Audit would be required.

MFR Audit Process (cont'd)

4. **Recipient Agreement and Project Audits:** Are a formal review of general or administrative Investment Schedule and Project activities, such as: WCB, insurance, tendering, and First Nations info sharing. This audit can be completed at the time of the Completion Audit; however, most often it will be completed at the end of the fiscal year (due to the need to review the RAH tendering, First Nations commitments, and in-house limits).

- ❑ This is a formal process and would require an Audit Planning Letter to be submitted to the RAH.

- ⦿ Note: An inspection or review of a project equals one audit.
- ⦿ Completed Audit Protocols (e.g., In-stream, Completion, Recipient Agreement) and an Audit Report are required for each audit. Multiple audits may be included in one report.

MFR Audit Process (cont'd)

5. Financial Audits: Is a formal review of all financial records conducted by CA's.

2. Discussion Point: Do you think experienced foresters should be included within some of the more complicated financial audits?

Why Create a New Process?

- ⦿ It was felt that the PwC Process may not have adequately assessed fieldworks, in that activities were either:
 - Reviewed “during” the works and, generally, findings could not be assessed;
 - Or, fieldworks were reviewed the following field season, once completion was approved, often resulting in much different field conditions and therefore eliminating possible non-conformances. E.g., A planting review the following field season could not assess exposed plugs due to possible frost heaving.
- ⦿ The MFR Process takes into account the monitoring that Ministry Staff would have typically undertaken (e.g., walk thru’s, checkplots, etc.) and incorporated it into the mandated formal audit system (e.g., field inspections and office review).

Why Create a New Process? (cont'd)

- It is hoped that the new process would better mimic what Ministry Staff are already doing and have it flow into the audit process as seamlessly as possible.
- It would also allow for the inclusion of other personnel (District Staff, Contractors) in the process. Where they would complete the field portions (monitoring and in-stream) of the audit and the data gathered would be used by the Lead Auditor to complete the in-stream protocol and the audit report.

3. Discussion Point: Do you feel this system meets your needs? How do you see yourself, District Staff, or Contractors fitting in to this process?

Break Time! Take 15 😊

- ⦿ Q: When does a person decide to become an Auditor?
- ⦿ A: When he realizes he does not have the charisma to succeed as an undertaker.

The Audit Process

The following section is an overview of the process from project to audit.

- ❑ Project Risk Rating – A project is submitted by the RAH to the Regional Silviculture Specialist (RSS). The RSS rates the overall “risk” of the project based on a combination of the risk of two criteria:
 1. The risk of the project (based on complexity, cost, environmental & safety concerns, etc.) and,
 2. The risk rating of the RAH (as determined by the RAH Report Card).
- ❑ Where the Project Risk Rating is “high” or “very high” the RSS notifies Branch. These projects are automatically added to the Audit Matrix for inclusion in the audit plan.
- ❑ Audit Matrix / Plan – Branch creates an annual audit plan (listed by project) based upon the individual project risk ratings (high and very high), annual audit focus (e.g., all FLTC projects), target percent of projects to be audited (e.g., 33%), and target percent of program investment (e.g., 50% of FFT funds).

The Audit Process (Audit Matrix/Plan cont'd)

- ❑ Audit Matrix / Plan (cont'd) – Branch notifies each Region of the projects that must be audited annually.
 1. The Region should inform Branch as to any risk rating changes to a project. In that, on occasion, a seemingly high risk project at submission is revised down to a moderate or low risk during the project or at completion.
 2. Most often the reverse occurs where a project is originally assessed as a low or moderate risk and is revised to high or very high.
 3. The Audit Plan is revised by Branch to accommodate the revised risk ratings.
- ❑ The Audit Coordinator and the RSS work together to determine the audit schedule.
 4. Discussion Point: The role of the Audit Coordinator is to act as a liaison between Branch (and the Audit Matrix/Plan) and the RSS and provide support to the Regions in respect of planning and coordinating of their audits. How do you see the role and responsibilities of the Audit Coordinator assisting you your audit program?

The Audit Process (Audit Scheduling/Planning cont'd)

- ❑ RSS – Arranges for or completes the monitoring and in-stream inspections of the audits.
- ❑ Where the RSS determines that a formal in-stream audit process is required, the Lead Auditor develops the audit planning letter in consultation with the RSS and the RAH and may be involved in the Inspection.
- ❑ When a 100% inspection is necessary (the in-stream audit identifies a non-compliance with the standards e.g., >5% variance between RAH Planting Quality Calculation and the RSS) the Lead Auditor develops the audit planning letter and where possible should be involved in the inspection.

The Audit Process (Audit Roles & Responsibilities)

- ❑ Lead Auditor – The Lead Auditor is responsible for liaison with the RAH about the audit, compiling the completed audit protocols, writing and signing the audit report, informing the RAH the results of the audit and ensuring that “action plans” for non-conformances are completed by the RAH. The Lead Auditor, may also conduct the formal inspections (of a 100% Audit) where required.

- ❑ Note: The information for the Audit Protocols potentially may be completed by more than person (especially the in-stream protocols).

5. Discussion Point: How do you see the role of the “Lead Auditor” assisting you in your audit program?

- ❑ The RSS provides direction and support to the Audit Coordinator and Lead Auditor.
- ❑ Ministry Staff (e.g., District) and/or QA Contractors provide assistance in completing the in-stream audit fieldwork.

The Audit Process (Audit Roles & Responsibilities cont'd)

- ⦿ Discussion of the Regional Audit workload and Staffing:
 - ⦿ Audit Matrix & Plan – Audit Coordinator.
 - ⦿ In-stream Audits – RSS, Regional MFR Staff, District MFR Staff, QA Contractors.
 - ⦿ Completion Audits – RSS, Regional MFR Staff, and Lead Auditor.
 - ⦿ Recipient Agreement and Project Audits – RSS, Regional MFR Staff, and Lead Auditor.
- Note: Audit protocols and report coordinated/written by Lead Auditor.

6. Discussion Point: How do you feel about the audit workload in respect of your other FFT responsibilities?

Lunch Break! Take 30 😊

Q: Why are they putting Auditors at the bottom of the ocean?

A: They found out that deep down they're really not so bad.

The Audit Process (The Audit Planning Letter)

- Audit Planning Letter – Where a formal audit/inspection is required a formal notification to the RAH is mandatory. Where the RAH presence is required during the audit a formal process is initiated. Note: Monitoring would be considered informal, where as In-stream, Completion, Recipient Agreement, or Financial audits are formal processes.
- The Audit Planning Letter is a formal letter that notifies the RAH the time/date, purpose, and requirements of the audit.
- Please see the following example:
 - FFT Audit Planning Letter Template.doc

The Audit Process (Audit Protocols)

- Audit Workbook – Depending upon the focus of an audit, the audit workbook is comprised of one or more protocols: in-stream, completion, recipient agreement.
- Please see the following example:
 - FFT_Audit Protocol Training Workbook Sept 5, 2009.xls
- A “protocol” is a series of audit questions taken from the standards used for a particular activity. Note: In most instances the question is written almost verbatim from the standard. Basically, the standard is rephrased as a question and in the past tense.
- All questions are answered in a positive manner, meaning that if the RAH has met the standard the answer to the question would be, “Yes” and if not, the answer is “No”.
- In some instances questions (i.e., standards) are not applicable in respect of the project objectives. These questions are answered as “N/A”.

The Audit Process (Audit Protocols cont'd)

- In-stream Protocols – Are to be used for monitoring and inspections of the fieldwork component of a project. The in-stream protocols are specific to each activity (e.g., planting); however, multiple projects can be used in one protocol.
 1. Review of the Performance Guidance Document – The guidance document describes how to complete an in-stream or completion protocol.
 2. Review of a completed in-stream protocol (e.g., planting).
 3. Explanation of how the monitoring and inspections fit into the filling-out of the protocol.
- Completion Protocols – Are to be used for a review of the office portion of a project (reports, deliverables, etc.) and PINES Completion Reporting. The completion protocols are specific to each activity (e.g., planting); however, multiple projects can be used in one protocol.

The Audit Process (Audit Protocols cont'd)

- Recipient Agreement (RA) Protocol – Is a general review of the Investment Schedules and Projects, such as: tendering, First Nations info sharing, in-house limits, insurance, etc. The RA protocol is generic and, therefore, can be used for several investment schedules and project types at the same time.
 1. Typically the RA protocol would be completed after the project/s have been approved for Completion in PINES.
 2. Depending upon risk the RA protocol could be completed post project completion (higher risk projects) or at the end of the fiscal (lower risk).
 3. Review of the RA Guidance Document – The guidance document describes how to complete a RA protocol.

The Audit Process (Audit Report)

- ◎ Audit Report – Is a formal report documenting the procedures, Investment Schedules, projects, and findings of an audit.
 1. An audit report is required for each project. However, an audit report may encompass several I.S. and projects.
 2. A review of a project equates to one audit. The Audit Matrix is comprised of varying factors, the number of projects required to be audited being one of the matrices.
 3. Review of the Audit Report Template. Note: The current headers and footers have to be removed for incorporation onto MFR letterhead.
 4. The Lead Auditor is responsible for taking the Audit Protocols and incorporating the findings (non-conformances, opportunities for improvement, good management practices) into the audit report.
 5. The audit report details the findings and, where applicable, states the Action Plan required to address the non-conformances.
 6. The “Action Plan” affirms measures required by the RAH to either correct the non-conformance or to ensure that they do not occur in the future. Note: Some non-conformances may not be able to be corrected (e.g., poor stock handling). The Action Plan should be an agreed action between the MFR, RAH, and Auditors.
 7. The Lead Auditor signs the report and is sent to the FFT Administrator, RAH, District Managers, and RSS.

Break Time! Take 15 😊

“Those that can ... Do,
Those that can't Do ... Teach,
Those that can't Teach ... Audit.”

The Audit Process (Audit Findings)

● Audit Findings –

1. What is a non-conformance, i.e., major (MaNC) versus minor (MiNC) non-conformance and how are they assessed?
 2. Opportunities For Improvement (OFI) – What is an OFI and how does it differentiate from a MiNC?
 3. Good Management Practice (GMP) – What is a GMP and when are they assessed?
- Note: The definitions are verbatim from PwC's audit report that has been used for FFT since its inception.
 - Note: The correction of non-conformances (MaNC and MiNC) are undertaken at the RAH expense and may include additional Auditor's expenses. Example: If a 100% re-inspection of a planting unit were to find that the Rah was not within the +/-5% tolerance, the RAH would have to pay for the entire cost.
 - If the non-conformance cannot be rectified and the project brought up to standard, then funds advanced to a Recipient may be recovered in accordance with the terms of the Recipient Agreement.
 - For all non-conformances, the Recipient must provide an acceptable action plan to the MFR within 15 days of the audit closing meeting to correct , if possible, any deficiencies and to ensure the finding does not arise in the future. The Lead Auditor will follow-up on all non-conformance action plans to ensure these have been implemented.

The Audit Process (Audit Findings cont'd)

- Major Non-conformance (MaNC): A non-conformance issue that resulted in the project objective(s) not being met. Where possible, the Recipient must take, at their expense, whatever action is necessary to rectify the non-conformance and bring the project up to the applicable standard(s). The audit report will be finalized upon receipt of the agreed upon action plan. Should a second site visit or significant time be required to follow-up on the implementation of the action plan, this will be conducted at the Recipient's expense (time, travel, disbursements, etc.).
- Minor Non-conformances (MiNC): A non-conformance issue occurred, however the project objective(s) were met. In general, minor non-conformances are administrative in nature but it should be noted that incorrect professional sign-off of Schedule A may be classified either as a major or minor non-conformance depending on the circumstances.
 - Note: Findings do not compound, e.g., 2 MiNC do not equal 1 MaNC.

The Audit Process (Audit Findings cont'd)

- Opportunities for Improvement (OFI): Serve to identify areas where a Recipient's forest practices may be improved. These issues indicate isolated instances of low risk non-conformance with FFT standards that **should** be addressed, or practices that have the potential to become non-conformances in the future if not addressed.
 - Note: Corrective action/s and an action plan are not required for OFI. OFI are where the RAH **should** revise their practices so that they do not become high risk non-conformances.
- Good Management Practices (GMP): Serve to identify where a Recipient's forest management practices are considered to be above average. i.e., the forest management practices would be "over and above" the standards.
 - Conforming to the standards is not a good management practice ... it is expected.
 - Note: If a RAH were to undertake "good management practices" to the extent that it greatly increased the cost of an activity, without any appreciable benefit, it could be considered a MaNC or MiNC depending upon the severity of the unit cost increase.

The Audit Process (Audit Findings cont'd)

- ◉ An audit program should have consistent assessment of non-conformances (i.e., Is it a MaNC, MiNC, or OFI?) bearing in mind regional or local issues (e.g., First Nations info sharing). The Audit Coordinator will help to ensure this consistency province wide.
- ◉ Audit Objective – The main purpose of an audit is to determine if there are systemic issues in the RAH procedures and performance.
- ◉ However, “one-off” issues are also noted and can be very significant, depending upon it’s severity.
 - The primary concern is where systemic issues exist ... as they are much harder to address and correct.
- ◉ Sampling Plan – The Auditor is required to “sample” the data to the extent that they feel comfortable with their assessment.
 - However, for field activities (e.g., planting, surveys) the Audit Team has determined that a minimum 5% plot inspection and 20% ground recce of the project area is required.
 - For file review, typically I will review 10% of the Openings. However, if I have encountered findings, I will increase the intensity to 20-25%.

The Audit Process

- ④ The Auditor has the authority to exercise their right to inspect any aspect of the project as they deem appropriate. This would include areas not covered off under the general understanding of the audit type (e.g., in-stream, completion, financial, etc.) as discussed between the Auditor and the RAH, prior to the audit commencing. However, this should not be generally used by 3rd Party Auditors. If a 3rd party Auditor notes something outside of the general audit plan, the Auditor must contact FFT Staff and they should explore the issues further.
 - Note: Which may include having the 3rd Party Auditor proceed with the new avenue of exploration.
- ④ The Auditor has the flexibility to add questions as they deem appropriate. However, the protocol questions must be in adherence with accepted standards and practices. Note: It has happened on occasion where a project was approved without a required standard stated. Either, (prior to Project Completion approval) the Investment Manager requests the RAH to amend their project to include the standard or those questions must be excluded from the audit. In that, you cannot audit to something the RAH did not agree to in the submitted and approved project. Frustrating yes, but the only fair way to proceed. Due diligence at the project approval stage is key to ensure this does not happen.

The Audit Process

7. Discussion Point: Do you have suggestions for RAH outcomes for non-conformances? Should the outcomes for systemic issues be differentiated from “one-off” issues? Should outcomes be putative and punitive?

Examples of Non-conformances and potential Outcomes:

- Nonconformance: The Recipient exceeds their percentage of in-house work.
- Outcome: For each percent over the limit, they are deducted that percent the following fiscal. I.e., 5% over the limit = 5% under the limit next year.
- Nonconformance: Recipient completed work not in the approved PINES project.
- Outcome: Repayment of all the costs.

The Audit Process

Risk Assessment

- ❑ Audit Findings and their Relation to the Annual Recipient Risk Assessment – At the end of the fiscal the accumulated audit findings, by RAH by Region, are used in the RAH Report Card to help calculate the annual Recipient Risk Rating.
 - ❑ More audit findings equals higher RAH risk. Higher RAH risk means a higher level of monitoring of the RAH is required.
 - ❑ The RAH Risk Rating in conjunction with the activity risk give an overall assessment of the potential risk that project has or Project Risk Rating.
 - ❑ The higher the project risk, the higher the audit potential. Projects with a high to very high risk will automatically require an audit.
 - ❑ Projects with a very low to moderate risk rating may be audited due to annual audit matrices, such as an audit focus on all site prep projects or are required to achieve certain thresholds (e.g., 50% of all funds audited).
- ❑ As the project progresses or is submitted for completion the RSS can modify the Project Risk Rating based on new information.
 - ❑ Typically that means the risk is increased (e.g., moderate to high) based on concerns the RSS may have during the course of their monitoring or inspections. However, risk can also be decreased if the RSS was initially concerned about an activity or process but after further consultation feels more comfortable with the RAH ability to ensure the project is completed successfully.

Additional Topics

Unit Cost Benchmarks

- Unit Cost Benchmarks - Are used to ensure that a RAH proposed budget falls within an acceptable unit cost range for each activity. For proposed activities where the unit cost is outside the benchmarks (especially if higher) the RSS must ask for supporting documentation from the RAH rationalizing the costs.
 - If the rationalization is insufficient the project should not be approved.
 - Benchmarks are also used for all amendments, particularly when the budget is amended.
- Conversely, the benchmarks are also used at the Completion stage by the RSS for Completion approval. Again, where the unit cost is outside the benchmarks (especially if higher) the RSS must ask for supporting documentation from the RAH rationalizing the costs.
 - If the rationalization is insufficient the project completion should not be approved.

Forests For Tomorrow Auditing 101

Questions & Answers

Thanks for your participation ...

Good Luck and Happy Auditing!

Dennis B. Sabourin
Silent Running

