



Office of the Auditor General of Canada

2010–11 Estimates

Performance Report

Approved

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Interim Auditor General of Canada

Honourable James Michael Flaherty, P.C., MP
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Message from the Auditor General of Canada



John Wiersema, FCA
Interim Auditor General of Canada

As Interim Auditor General of Canada, I am pleased to present my Office's 2010–11 Performance Report. Sheila Fraser's term as Auditor General ended on 30 May 2011. We had hoped that a successor would be appointed before the end of Ms. Fraser's term. Although this did not happen, we are very much looking forward to the appointment of the next Auditor General as soon as possible.

To coincide with the end of her term, Ms. Fraser issued a document entitled *Serving Parliament through a Decade of Change*, which may be of particular interest to Parliamentarians. In it, Canada's former Auditor General reflects on the way the Office and the work it does evolved to better serve Parliament during her term, between 2001 and 2011.

The Office of the Auditor General of Canada conducts independent financial and performance audits and studies of federal departments and agencies, Crown corporations, and other entities. We also conduct audits of the governments of Nunavut, Yukon, and the Northwest Territories. Our reports are presented directly to Parliament, territorial legislatures, or Crown corporation boards of directors. Our role is to provide objective information and assurance regarding the use of public funds.

Our reports focus on good practices, areas needing attention, and (through our recommendations) possible improvements in government. Along with our testimony at Parliamentary hearings, our reports assist parliamentarians and territorial legislators in their important roles of authorizing and overseeing government spending and operations.

We completed 148 financial and performance audits and special examinations of Crown corporations during the 2010–11 fiscal year. I am pleased to report that Parliament remained very interested in our work throughout the year. We participated in 46 hearings and briefings, and parliamentary committees reviewed 62 percent of our performance audits.

Every two years, we issue a Status Report that follows up on the government's progress in meeting their commitments in response to our recommendations from previous performance audits. We tabled our most recent Status Report in June 2011. We found satisfactory progress in two of six areas examined and in 62 percent of the 42 underlying recommendations made in past reports. While government acts on many of our recommendations, others require further effort by departments. We will be discussing with departmental chief audit executives opportunities to improve the implementation and monitoring of our performance audit recommendations.

As a result of the dissolution of Parliament for the federal election, we did not survey members of parliamentary committees who regularly review our work, as we usually do. We did, however, survey senior managers in the organizations we audited and received positive feedback. Their assessment of the value of our work was the highest we have seen in the past three years.

We have been working to improve our ability to complete our audits on budget since 2008. Our on-budget performance has been improving over the past four years, though we are disappointed with this year's result for financial audits. In particular, we were unable to sustain the significant gains we made last year when we delivered more than 85 percent of our financial audits on-budget. Improving

our management of the cost of individual audits remains one of our priorities for our financial audit practice. We will be taking additional steps to improve accountability for these costs.

As part of our Office's adoption of new auditing standards, we have continued to implement the plan we developed in the last few years to address our needs, especially in the areas of communications, training, and development of audit tools. This project is on track and going well, except in our financial audit practice; because of the greater than anticipated quantity of material, we will require an additional year to complete the guidance and training for this practice.

Our Office continues to be recognized as a workplace of choice. For the fourth consecutive year, we have been ranked as one of Canada's Top 100 Employers, one of Canada's Top Family-Friendly Employers, and one of the National Capital Region's Top Employers. Also, for the first time, we have been named one of the Top Employers for Canadians over 40. We view these results as recognition of our efforts to enable our employees to balance their professional and personal lives and achieve fulfilment in both.

While there are areas we need to improve, overall, we believe the Office had a successful 2010–11 fiscal year. I want to take this opportunity to thank all staff members for their dedication to the Office. It is thanks to them that this Office continues to produce quality audit products that are of value to Parliament, territorial legislatures, and the organizations we audit.

I also want to take this opportunity to acknowledge Sheila Fraser's contribution to this Office and to promoting good governance and accountability in our federal and territorial governments.

I trust you will find that this performance report presents an open and balanced picture of our activities and their impact in the 2010–11 fiscal year.

John Wiersema, FCA
Interim Auditor General of Canada
7 September 2011

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the Office of the Auditor General of Canada that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations and the *Auditor General Act* and regulations.

Welch LLP
Lévesque Marchand SENC
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
7 September 2011

Results of our work

In our most recent status report, which was tabled in June 2011, we found satisfactory progress in 2 of 6 areas examined, and in 62 percent of the 42 underlying recommendations we examined.

For the four special examinations completed in the 2010–11 fiscal year, one Crown corporation had a significant deficiency that we reported in the previous examination. This significant deficiency has been addressed by the corporation.

Twenty-six percent of the reservations in our financial audit reports from the 2009–10 fiscal year were addressed this year. Only four of the twenty-one reservations that were not addressed were auditing or accounting reservations. The remainder were for non-compliance with authorities, mainly for failing to file annual reports on time.

Federal ministers delivered 96 percent of responses to petitions on environmental matters within the 120-day time limit, compared with 91 percent in the 2009–10 fiscal year.

Section I—Overview

Who we are

The Office of the Auditor General of Canada is the legislative audit office of the federal government. We are also the legislative auditor of the three territories. We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, territorial legislatures, governments, and Canadians. With our reports and testimony at Parliamentary hearings, we assist Parliament and territorial legislatures in their work on the authorization and oversight of government spending and operations.

What we do

The Auditor General is an Officer of Parliament who is independent from the government and reports directly to Parliament. The duties of the Auditor General are set out in the *Auditor General Act*, the *Financial Administration Act*, and other acts and orders-in-council. These duties relate to legislative auditing and, in certain cases, to monitoring of federal departments and agencies, Crown corporations, territorial governments, and other entities.

The Office's main legislative auditing duties are

- financial audits,
- performance audits,
- special examinations,
- sustainable development monitoring activities and environmental petitions, and
- assessments of agency performance reports.

Financial audits

Our financial audits provide assurance that financial statements are presented fairly in accordance with Canadian Generally Accepted Accounting Principles (GAAP) or, in a few cases, with other relevant standards. Where required, we provide assurance that the organizations we audit comply, in all significant respects, with legislative authorities that are relevant to a financial audit. We also conduct financial audits of federal and territorial Crown corporations and of other organizations. We audit the summary financial statements of the Government of Canada and each of the three territories (Nunavut, Yukon, and the Northwest Territories).

If issues or opportunities for improvement in areas such as financial reporting and internal controls come to our attention during our financial audit work, we make recommendations to management. We also provide information and advice to help audit committees meet their responsibilities for the oversight of financial reporting and internal control.

Performance audits

Performance audits examine, against established criteria, whether government programs are being managed with due regard to economy, efficiency, and environmental impact, and whether the government has the means to measure and report on their effectiveness. Our reports contain recommendations for addressing the most serious deficiencies identified.

The *Auditor General Act* gives the Office the discretion to determine what areas of government it will examine in its performance audits. We may decide to audit a single government program or activity, an area of responsibility that involves several departments or agencies, or an issue that affects many departments and agencies. We consider requests for audits that we receive from parliamentary committees. However, the final decision about what to audit is made by the Auditor General.

Special examinations

Our special examinations assess the systems and practices maintained by Crown corporations. A special examination provides the corporation's board of directors with an opinion on whether there is reasonable assurance that there are no significant deficiencies in their systems and practices. A significant deficiency is a major weakness that could prevent the corporation from having reasonable assurance that its

- assets are safeguarded and controlled,
- resources are managed economically and efficiently, and
- operations are carried out effectively.

In addition to reporting on significant deficiencies, our special examinations highlight systems and practices that contribute to success and provide information and recommendations to boards of directors about opportunities for improvement.

All parent Crown corporations, except two, are subject to a special examination by the Office. The two exceptions are the Bank of Canada, which is exempt from this requirement, and the Canada Pension Plan Investment Board, which (under the *Canada Pension Plan Investment Board Act*) is subject to a special examination by an auditor who is chosen by the board of directors. In early 2009, the *Budget Implementation Act, 2009* changed the frequency of special examinations required under the *Financial Administration Act* to at least once every ten years, from at least once every five years.

Sustainable development activities and environmental petitions

The Commissioner of the Environment and Sustainable Development assists the Auditor General in performing duties related to the environment and sustainable development. The Commissioner conducts performance audits to monitor the government's management of environmental and sustainable development issues and, on behalf of the Auditor General, reports to Parliament on issues that should be brought to its attention.

Under the *Kyoto Protocol Implementation Act*, the Commissioner is required to provide Parliament with a report every two years. This report includes

- an analysis of Canada's progress in implementing its climate change plans;

- an analysis of Canada’s progress in meeting its obligations under Article 3, paragraph 1, of the Kyoto Protocol; and
- any observations and recommendations on any matter that the Commissioner considers relevant.

Since June 2008, when the *Federal Sustainable Development Act* was passed, Environment Canada has been required to prepare a federal sustainable development strategy that includes specific targets and implementation strategies. The Commissioner is responsible for reviewing the federal government’s draft sustainable development strategy and for commenting on whether the targets and implementation strategies can be assessed. The first federal strategy was tabled in the House of Commons in October 2010.

Once every three years, beginning in 2011, each minister who presides over a department named in Schedule I of the *Financial Administration Act* or an agency named in the *Federal Sustainable Development Act* is required to prepare a sustainable development strategy that complies with and contributes to the federal strategy.

The Commissioner must report annually to the House of Commons on the extent to which departments subject to the *Federal Sustainable Development Act* have complied with and contributed to meeting the targets set out in the federal strategy. The Commissioner must also report on whether these departments have met the objectives and implemented the plans set out in their own sustainable development strategies. The government is required, by legislation, to report on its progress in implementing the strategy at least once every three years. The Commissioner is responsible for assessing the fairness of the information contained in the government’s progress report.

The Commissioner also administers the environmental petitions process. This includes monitoring responses to environmental petitions and reporting annually to Parliament on petition activities from the previous year, including instances where ministers did not respond to petitions within the 120-day time limit specified in legislation. The Office of the Auditor General considers issues raised in petitions when planning future audits.

Assessments of agency performance reports

The legislation governing the Parks Canada Agency, the Canadian Food Inspection Agency, and the Canada Revenue Agency requires the Auditor General to periodically assess the fairness and reliability of the performance information reported in their annual reports against corporate objectives they provided to Parliament.

Professional practices

In order to ensure the reliability and consistency of our audit work, the Office makes an ongoing investment in professional practices. This investment supports

- the development and maintenance of up-to-date audit methodology, guidance, and audit tools;
- communication and training to promote consistency in the application of audit methodology and the Office Quality Management System (QMS); and
- the provision of advice on the interpretation and application of professional standards, Office policies, audit methodology and the Office’s QMS.

Through the Professional Practices Group, the Office works with other legislative audit offices and professional associations, such as The Canadian Institute of Chartered Accountants, to advance legislative auditing methodology, accounting and auditing standards, and best practices. We regularly participate in external reviews of other national legislative audit offices and are the subject of external reviews.

International activities

Our international strategy guides our international activities and positions the Office to meet future opportunities and challenges. The strategy has four goals:

- Contributing to the development and adoption of appropriate and effective professional standards
- Sharing knowledge among audit offices
- Building capabilities and professional capacities of audit offices
- Promoting better managed and accountable international institutions

(See “Our international contribution” in Section II for more details).

Strategic outcome and performance summary

The long-term strategic outcome of the Office of the Auditor General is to contribute to better-managed government programs and better accountability to Parliament through our legislative auditing work.

We have identified a number of results that we expect to achieve with our audits in the short, medium, and long term. In the short term, we want to engage Parliament and federal and territorial organizations in the audit process, ensure that Parliament is well informed about our work, and maintain support for our role and work. In the medium term, we want to assist Parliament in holding the government to account; make our work relevant to federal and territorial organizations, departments, agencies, and Crown corporations; and ensure that the public is well informed about our work. In the long term, we want our work to lead to more effective, efficient, and economical government programs and operations and to programs that foster sustainable development (Exhibit 1).

Exhibit 1—Performance summary

| Strategic outcome: We contribute to a well-managed and accountable government for Canadians. | | |
|---|--|--|
| Expected results <ul style="list-style-type: none"> Parliament is well-informed. Parliament and federal and territorial organizations are engaged in the audit process. Parliament holds government to account. Our work is relevant to federal and territorial organizations, departments, agencies, and Crown corporations. The media and public are well-informed. Support for our role and work is maintained. | | 2010–11 performance We completed: <ul style="list-style-type: none"> 26 performance audits 118 financial audits 4 special examinations |
| Objectives | Indicators and targets | 2010–11 performance |
| Key users of our reports are engaged in the audit process. | <ul style="list-style-type: none"> Maintain or increase percentage of audits that are reviewed by parliamentary committees. Maintain or increase number of parliamentary hearings and briefings we participate in, relative to the number of sitting days. | <ul style="list-style-type: none"> Level of engagement is consistent with prior years. |
| Our work adds value for the key users of our reports. | Percentage of responses from users who find that our audits add value: <ul style="list-style-type: none"> 90 percent for all audit types | <ul style="list-style-type: none"> Target was not met for financial audits. There were no results for performance audits¹ Target was met for special examinations². |
| Our work adds value for the organizations we audit. | Percent of responses from senior managers who find that our audits add value: <ul style="list-style-type: none"> 80 percent for financial audits and special examinations 70 percent for performance audits | <ul style="list-style-type: none"> Targets were exceeded for financial audits, performance audits and special examinations². |
| Key users of our reports and the organizations we audit respond to our findings. | Percent of performance audit recommendations against which satisfactory progress has been made (75%) or modifications and deficiencies that are addressed (100%). | <ul style="list-style-type: none"> Targets were met for special examinations. Target was not met for performance audits and financial audits. |

Exhibit 1—Performance summary (continued)

| Legislative auditing activity ³ | 2009–10 Actual spending ⁴ (\$ millions) | 2010–11 Forecast spending ⁵ (\$ millions) | 2010–11 Actual spending (\$ millions) |
|---|--|--|---|
| Financial audits of Crown corporations, territorial governments, and other organizations, and of the summary financial statements of the Government of Canada | 40.0 | 42.0 | 44.0 |
| Performance audits and studies of departments and agencies | 42.9 | 40.6 | 41.2 |
| Special examinations of Crown corporations | 4.1 | 0.7 | 1.3 |
| Sustainable development monitoring activities and environmental petitions ⁶ | 1.2 | 1.7 | 1.0 |
| Assessments of agency performance reports | 0.4 | 0.7 | 0.7 |
| Professional practices | 11.6 | 15.7 | 13.5 |
| Total cost of operations | 100.2 | 101.4 | 101.7 |
| Less: Costs recovered ⁷ | – | (0.6) | (0.1) |
| Net cost of operations | 100.2 | 100.8 | 101.6 |

¹ There was no survey of parliamentarians in the 2010–11 fiscal year, as the House and Senate were dissolved due to the federal election.

² Only 5 special examinations surveys were completed in the 2010–11 fiscal year, corresponding with the small number of examinations completed.

³ The cost of audit services is allocated to each legislative auditing activity.

⁴ Actual spending is restated to reflect the reclassification of products in our revised product costing methodology.

⁵ Forecast spending is as reported in the 2011–12 Report on Plans and Priorities.

⁶ Performance audits conducted by the Commissioner of the Environment and Sustainable Development, totaling \$ 6.8 million in the 2010–11 fiscal year and \$7.4 million in the 2009–10 fiscal year, are included under performance audits and studies of departments and agencies

⁷ The Office is funded, in our appropriation, for the audit of the International Labour Organization. Amounts recovered are returned to the Consolidated Revenue Fund as non-responsible revenue.

We gather information on the impact of our work, and we have established indicators and targets to measure the results for our three major activities: financial audits, performance audits, and special examinations. The following section describes the performance objectives, indicators, and targets and actual results for each of these activities.

We have a set of organizational performance measures, which are also presented in the following section, that help us monitor whether

- our work is delivered on time and on budget,
- our audit reports are reliable, and
- we provide a respectful workplace.

Tables summarizing all of our targets and actual performance appear in Section III, Supplementary Information.

Section II—Reporting on Results

Our priorities for the 2010–11 fiscal year

The Office of the Auditor General identified three strategic priorities for the 2010–11 fiscal year:

- Integrating changes to professional standards
- Updating and strengthening the design and implementation of the Office Quality Management System (QMS)
- Improving resource allocation and project management

During the year, we began addressing the first two priorities together, under our Renewal of Audit Methodology (RAM) project.

Successfully implementing our Renewal of Audit Methodology project

Our RAM project responds, in part, to the significant changes in international and Canadian auditing standards and to the introduction of International Financial Reporting Standards (IFRS) in 2011. The project also responds to

- internal practice review findings,
- feedback from practitioners, and
- recommendations from the international peer review of the Office, which was completed in 2010, about the design and implementation of our QMS.

The objective of the project is to provide our staff with the tools, training, and change management support they need to conduct high-quality audits. This project will

- renew our audit methodology,
- establish a sustainable process for ensuring that our methodology remains current, and
- update the design and documentation of our Quality Management System.

As of 31 March 2011, we were on track to meet our deadline for implementing this project, except in one area related to our financial audit practice. In that practice, we have made the necessary changes to ensure that our methodology is fully compliant with the new Canadian Auditing Standards, and we have provided the necessary training. However, our plans to put in place additional guidance and provide related training will be implemented by 31 December 2012, one year later than originally planned. This delay is due to the fact that there was more material than originally anticipated, which meant more time was needed to adapt it to our Office practices. In all other areas and product lines, we are on track to meet our 31 December 2011 target date.

Improving resource allocation and project management

We have been working to improve our ability to complete our audits on budget, our main measure of efficiency in this area since 2008. We raised our target for this measure to 80 percent, beginning in the 2010–11 fiscal year.

In the 2010–11 fiscal year, we met our on-budget targets for individual performance audits, but we did not meet them for financial audits or special examinations. We will be taking additional steps to improve accountability for the costs of individual audits in our financial audit practice and will be taking further action to encourage the territories to improve the timeliness and quality of their financial reporting.

Our Audit Resource Planning and Career Management Team continues to facilitate the allocation of audit staff to projects. We monitor the perceptions of staff regarding their assignments. In our most recent employee survey (in 2010), 77 percent of respondents told us that their job makes good use of their skills and abilities.

Other challenges and initiatives

Funding

In light of the recent fiscal climate, we did not seek additional funding in the 2009–10 and 2010–11 fiscal years. Rather, we sought opportunities to reduce our expenses and redeploy auditors within the Office. We worked within our existing funding levels and completed the year with a small lapse of funds.

Sustaining our capacity

We have made the orientation and integration of new staff a key activity of our Office, as a way of promoting retention and engagement. Based on the results of detailed research and analysis carried out in the 2009–10 fiscal year, we identified best practices that could be applied more consistently, and we recommended areas for improvement. The Human Resources Committee monitored implementation of the recommendations in the 2010–11 fiscal year.

Official Languages

The Office demonstrates its commitment to maintaining a bilingual culture through a variety of initiatives:

- We maintain four full-time instructors who offered 9,000 hours of training in the 2010–11 fiscal year, mostly on a one-on-one basis.
- As a part of our three-year Official Languages Plan, we renewed our training program in order to increase the number of student hours. The Office has increased the number of group classes and has added elements such as “maintenance classes,” diagnostics, and structured web-based training for all employees at all language levels.
- We offer regular cultural awareness activities such as lunch time French-language films.
- We have an Official Languages sub-committee with representatives from all parts of the Office.

Performance highlights by product line

Indicators of impact

We measure our impact and performance for our three main product lines:

- Financial audits of Crown corporations, territorial governments, and other organizations
- Performance audits and studies of departments and agencies
- Special examinations of Crown corporations

The following sections summarize the results for each of these products during the 2010–11 fiscal year.

Financial audits of Crown corporations, territorial governments, and other organizations

Financial audits answer the following questions:

- Are the annual financial statements of Crown corporations, the federal and territorial governments, and other organizations presented fairly?
- Are these entities complying with their legislative authorities?

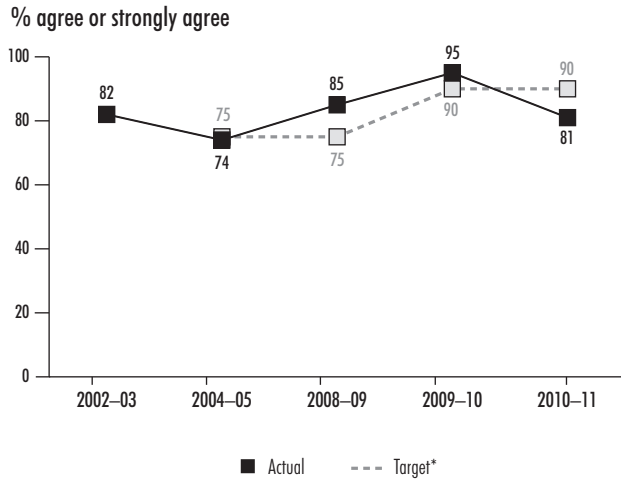
Our work adds value for key users of our reports and the organizations we audit. To understand the value of our financial audits, we survey the chairs of audit committees, and other bodies responsible for the oversight of financial reporting, and the senior managers in the organizations we audit. The surveys are available on our website.

Our target is for 90 percent of responses from audit committee chairs to indicate that they find that our audits add value. In the 2010–11 fiscal year, an average of 81 percent of responses were “agree” or “strongly agree” for the five statements used to measure value added.

Exhibit 2 shows the trend in responses from audit committee chairs. We conducted surveys in the 2002–03 and 2004–05 fiscal years. There were no surveys conducted in 2006 or 2007. We began annual surveys in the 2008–09 fiscal year. This year, we note the decline in the result and we will monitor the trend in the future.

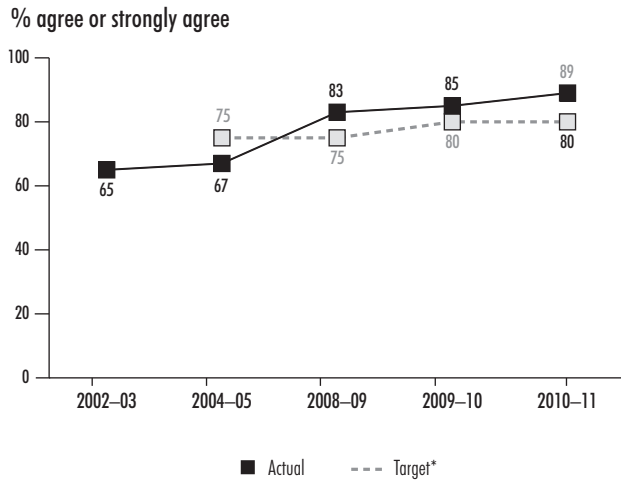
For the percentage of responses from senior managers of Crown corporations and large departments who “agree” or “strongly agree” that our financial audits add value, our target is 80 percent. On average, 89 percent of responses from senior managers surveyed in the 2010–11 fiscal year indicate that they agreed or strongly agreed that financial audits add value (Exhibit 3).

Exhibit 2 – Financial audits add value for audit committee chairs



*There was no target before 2004-05.

Exhibit 3 – Financial audits add value for senior managers



*There was no target before 2004-05.

Key users of our reports and the organizations we audit respond to our findings. For our financial audits, we monitor the corrective action taken by the organizations we audit in response to modifications contained in our audit reports. Our indicator is the percentage of modifications that are addressed from one report to the next. While we do not control whether organizations respond to these, our target is that they address them all. In the 2010–11 fiscal year, 8 out of 31 (26 percent) of the modifications we issued in the 2009–10 fiscal year were addressed.

Exhibit 4 summarizes the modifications in the audit reports we issued in the 2009–10 and 2010–11 fiscal years.

Exhibit 4—Modifications issued in the audit reports for the 2009–10 and 2010–11 fiscal years¹

| Fiscal year | Number of audit reports that contained modifications | Total number of modifications | Auditing Reservations | Accounting Reservations (GAAP departures) | Compliance Reservations | Number of "other matters" ^{**} | Modifications issued in prior year addressed in current year (%) |
|-------------|--|-------------------------------|-----------------------|---|-------------------------|---|--|
| 2009–10 | 12 | 31 | 8 | 1 | 22 | 0 | 28% ² |
| 2010–11 | 21 | 33 | 10 | 1 | 19 | 3 | 26% |

¹ In our financial audit reports, there are four types of modifications that can be presented: reservations related to financial accounting issues, reservations regarding auditing issues, reservations related to compliance-with-authorities issues, and "other matters."

Financial accounting reservations report departures of a significant monetary value from the requirements of the applicable financial reporting framework. Auditing reservations report situations where the auditor is unable to obtain sufficient appropriate audit evidence, for example, when the entity did not maintain proper books and records. Compliance with authorities reservations report instances of entities not complying with relevant authorities' legislation, for example, failing to prepare a Corporate Plan or financial statements within a specified time frame.

^{*} Our reports may also include "other matters," for example, comments concerning an organization's financial sustainability or ability to fulfil its mandate. Since the 2008–09 fiscal year, we have included "other matters" in the calculation of this performance indicator.

² This number has been restated due to a change in calculation. Beginning in the 2010–11 fiscal year, only those reports that were issued in the current fiscal year have been included in the calculation. Previously, reports where the work was completed, but the report not yet issued, were also included.

In the 2010–11 fiscal year, two of the auditing reservations were denials of opinion and eight were scope limitations. The denials of opinion were for the 2007–08 and 2008–09 financial statements of the Reserve Force Pension Plan. The accounting reservation was for a departure from Generally Accepted Accounting Principles (GAAP) in the Qulliq Energy Corporation. Of the nineteen reservations relating to issues of non-compliance with authorities requirements, eleven involved late tabling of annual reports or financial statements, two were for late or non-filing of corporate plans and six were for various other non-compliance issues. These modifications arose in the following jurisdictions:

- The Northwest Territories (2)
- Nunavut (10)
- Yukon (2)
- Federal entities (5)

Performance audits and studies of departments and agencies

Performance audits and studies answer the following questions:

- Are federal government programs well managed?
- Have they been run with due regard to economy, efficiency, and their environmental effects?
- Does the government have the means to measure their effectiveness where it is reasonable and appropriate to do so?

In the 2010–11 fiscal year, we completed 26 performance audits, a list of which is included in Section III—Supplementary Information.

Key users of our reports are engaged in the audit process. While many parliamentary committees draw on our work, the Office’s main relationship is with the Standing Committee on Public Accounts. The Commissioner of the Environment and Sustainable Development usually appears before the House of Commons Standing Committee on Environment and Sustainable Development.

We monitor the level of involvement of parliamentary committees by tracking the number of audits reviewed by committees. We also assess the committees’ level of interest in our reported findings by looking at how frequently they ask us to appear before them to further elaborate on our findings. Our appearances before committees assist parliamentarians in fulfilling their oversight role and provide us with the opportunity to increase awareness and understanding of the issues raised in our reports. Parliamentary committees continue to be well engaged in the audit process. Parliamentary committees reviewed 62 percent of our performance audit reports. This is a slight decrease from last year but is consistent with the four-year average since the 2007–08 fiscal year. We participated in 46 committee hearings and briefings over the 128 parliamentary sitting days. This is higher than last year and is consistent with the average in previous years.

Our work adds value for the key users of our reports. We periodically survey the members of four key parliamentary committees that review our reports:

- The House of Commons Standing Committee on Public Accounts
- The House of Commons Standing Committee on Environment and Sustainable Development
- The Senate Standing Committee on National Finance
- The Senate Standing Committee on Energy, the Environment and Natural Resources.

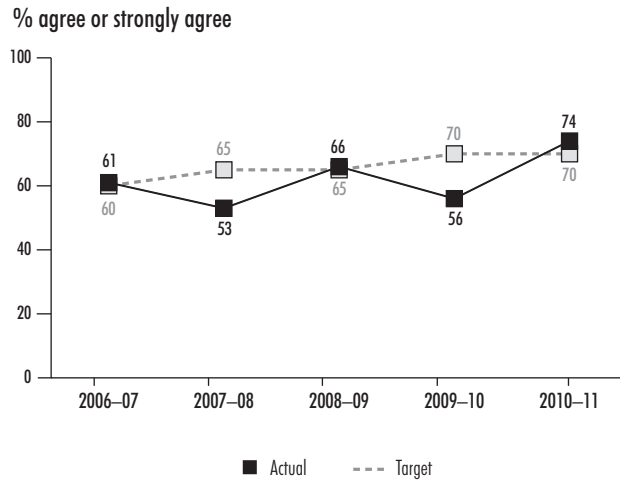
In the 2010–11 fiscal year, the Office did not survey parliamentary committees, because the federal election was called during the time we would normally conduct these surveys.

This year, for the first time, we also surveyed members of the territorial legislatures that review our reports. While the feedback we received was consistently positive, the number of responses does not allow us to draw conclusions about whether the results are representative of all members surveyed.

Our work adds value for the organizations we audit. Since the 2003–04 fiscal year, after tabling a performance audit report in Parliament, we have surveyed senior management of the organizations that we audited. Our target is to have 70 percent of the responses from senior management indicate that they “agree” or “strongly agree” that our performance audits add value for them. For audits

completed in the 2010–11 fiscal year, an average of 74 percent of responses from senior managers indicated that they “agree” or “strongly agree” that our audits add value. This result exceeded our target and exceeded the five-year average (Exhibit 5).

Exhibit 5 – Performance audits add value for senior management



Key users of our reports and the organizations we audit respond to our findings. Our indicator of impact for performance audits is the percentage of recommendations that departments substantially or fully implement within four years of the recommendations being issued. Our target for this indicator is 75 percent.

For the past three years, we have reported on this indicator using the self-assessments that departments and agencies provide to us. We are currently assessing whether to continue to use this data for future performance reports. In the meantime, we are using the findings in our status reports.

In our status reports, we follow up on previous audit topics of particular significance, not on a representative sample of past recommendations. We tabled our most recent status report in June 2011, and we found satisfactory progress in 62 percent of the 42 recommendations we examined. These recommendations related to six topics. We concluded that for these six topics, overall progress was satisfactory in two. The lower result for overall progress reflects the relative importance of individual recommendations in addressing the broader issues. In 2009, our status report found satisfactory progress in 56 percent of the 41 recommendations issued and for five of the seven topics. While government acts on many of our recommendations, others require further effort by departments. We will be discussing with departmental chief audit executives opportunities to improve the implementation and monitoring of our performance audit recommendations.

Special examinations of Crown corporations

A special examination of a Crown corporation answers the following question:

Do the systems and practices used by Crown corporations provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently, and that operations are carried out effectively?

In the 2010–11 fiscal year, we reported on the special examinations of the four corporations listed in Section III—Supplementary Information.

In 2008, the Office began publishing a chapter presenting the main points of all special examinations, and we will continue to present this information in our annual Report to Parliament. Chapter 7 of our 2011 Spring Report, *Special Examinations of Crown Corporations—2010*, presents the main points of the special examination reports that were issued to the boards of directors of the audited Crown corporations in 2010 and that have since been made public. Two of the reports identified significant deficiencies. One of them, on the Freshwater Fish Marketing Corporation, identified more than one significant deficiency, related to governance, strategic planning, and risk management as well as certain operational areas, including human resource management and capital asset management.

Legislation states that we should bring the information in our reports to the attention of the appropriate ministers and Parliament, when we deem it necessary. For example, we do this when we find certain types of significant deficiencies, such as those related to mandate or governance issues that only the federal government can address or to problems that have previously been reported but continue to occur. We also report issues to the appropriate minister involving specific risks that, in our opinion, the minister needs to be aware of. We chose to bring the report on the Freshwater Fish Marketing Corporation to the attention of the appropriate minister.

Our work adds value for the key users of our reports and the organizations we audit.

To understand the value of our special examinations to the users of these reports and the organizations we audit, we survey board chairs and chief executive officers. The number of survey respondents is small, corresponding with the number of special examinations we complete each year. For the four special examinations we carried out in the 2010–11 fiscal year, we received responses from one board chair and four representatives of senior management. Due to the small number of respondents, detailed results are not presented. However, we do follow up if issues are raised or where opportunities arise to improve our performance. Over the past five years, the feedback we have received has been positive and consistent with our targets.

Key users of our reports and the organizations we audit respond to our findings. We monitor the corrective action taken in response to significant deficiencies reported in our special examinations. Our indicator is the percentage of significant deficiencies that are addressed by the organizations we audit between examinations. Our target is 100 percent.

One of the four special examinations that we completed in the 2010–11 fiscal year had a significant deficiency reported in the previous special examination. This significant deficiency was addressed by the Crown corporation.

Sustainable development activities and environmental petitions

Sustainable development activities. Under the *Kyoto Protocol Implementation Act*, the Commissioner of the Environment and Sustainable Development is required to provide Parliament with a report every two years that includes an analysis of Canada's progress in implementing its climate change plans and in meeting its obligations under Article 3, paragraph 1, of the Kyoto Protocol.

Chapter 2 of the 2009 Spring Report of the Commissioner of the Environment and Sustainable Development was our first report under the *Kyoto Protocol Implementation Act*. Our second report has been completed and was scheduled to be tabled in the Commissioner's Spring 2011 Report. However, due to the May 2011 federal election, the tabling of this report was postponed until fall 2011.

In June 2010, the Commissioner provided the Minister of the Environment with comments on the government's federal sustainable development strategy, as is required under the *Federal Sustainable Development Act* (2008). The Commissioner commented on various aspects of the draft strategy, including whether the targets and implementation strategies can be assessed. He concluded that the draft strategy relies on existing mechanisms and government processes to promote more transparency and accountability. He also found that the strategy's lack of specific measurable targets and performance indicators will make it difficult for Environment Canada to provide Parliament with a comprehensive and objective assessment of the government's progress as it is required to do under the Act.

Environmental petitions. The 1995 amendments to the *Auditor General Act* require that we monitor and report annually to Parliament on environmental petitions received from Canadians. The Commissioner reports on the quantity, nature, and status of petitions received and on the timeliness of ministers' responses. The annual report on environmental petitions was included in the Commissioner's 2010 Fall Report, which was tabled in Parliament in December 2010.

In the 2010–11 fiscal year, the Office received 21 environmental petitions. Ministers delivered 96 percent of responses to petitions on environmental matters within the 120-day time limit, compared with 91 percent in the 2009–10 fiscal year.

The Office's audit work continues to be informed by issues raised in environmental petitions. This includes specific petition topics as well as common themes such as the adequacy and objectivity of the science used in policy-making and standard-setting.

Organizational performance

We measure and manage our performance as an organization in a number of ways. The following section describes our key performance objectives, measures, and targets and how we performed in the 2010–11 fiscal year.

Delivering work on time and on budget

On time. We completed the majority of financial audits of federal Crown corporations (96 percent) on time, but we did not meet our target of 100 percent. The audits of the First Nations Statistical Institute and the National Arts Centre were not completed on time. Financial audits of other federal organizations with a statutory deadline also had a 96 percent completion rate. The audit of the Canadian Polar Commission was reported one month late.

Completing audits of federal organizations without a statutory deadline on time can be more challenging as these entities are not always ready to be audited before our deadline—150 days after the end of the reporting period. Nonetheless, in the 2010–11 fiscal year, all of these audits were completed on time, exceeding our target of 80 percent.

Territorial financial audits present some unique challenges, including entity management not being adequately prepared for our audits. In the 2010–11 fiscal year, we completed 31 percent of these audits on time. This is lower than in the 2009–10 (64 percent) and 2008–09 (48 percent) fiscal years and falls well below our target of 60 percent. We have begun discussions at senior levels in the territories to raise our concerns and will be taking further action to encourage the territories to improve the timeliness of their financial reporting.

The Office determines when individual performance audit reports will be tabled in the House of Commons, so there are no statutory deadlines for these reports. However, we communicate to the House of Commons Standing Committee on Public Accounts our planned tabling schedule for performance audits for the coming fiscal year. In the 2010–11 fiscal year, 92 percent of the Office’s performance audits were on time, which exceeded our target of 90 percent.

In our 2010–11 Report on Plans and Priorities, 24 performance audits were listed as being planned for tabling during the 2010–11 fiscal year, and 22 performance audits were tabled as planned. One of two exceptions, “Assessing Cumulative Environmental Impacts,” was postponed. The second report, “Education in the Northwest Territories-Department of Education, Culture, and Employment,” was scheduled to be tabled in April 2010; but, because the Legislative Assembly in the Northwest Territories was not in session at that time, it was delivered in May 2010, still within the 2010–11 fiscal year.

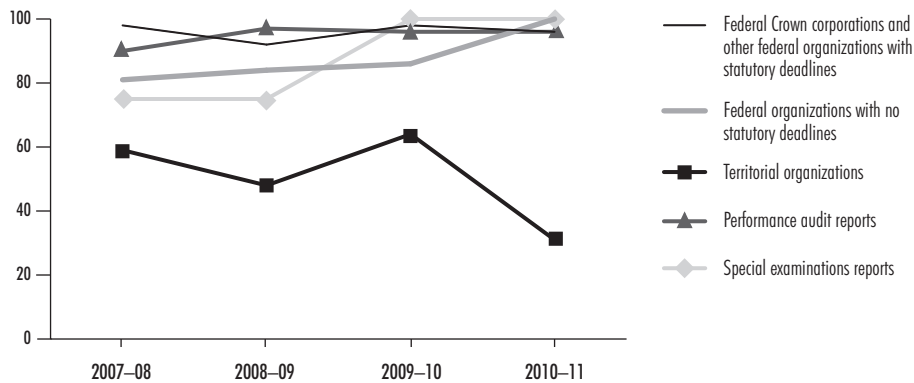
Three additional performance audits were tabled in the 2010–11 fiscal year, which had not been included in our 2010–11 Report on Plans and Priorities. The first audit was of the Public Sector Integrity Commissioner and was tabled in December 2010. The others were territorial audits carried out in the Northwest Territories, and both were tabled in early March 2011.

A list of all of the audits tabled in the 2010–11 fiscal year is included in Section III—Supplementary Information.

All four of the special examinations that we included in our 2010–11 Reports on Plans and Priorities (RPP) were delivered as planned, on or before the statutory deadline. A list of special examinations completed in the 2010–11 fiscal year is included in Section III—Supplementary Information.

Exhibit 6 shows the trends in our performance for producing our reports on time.

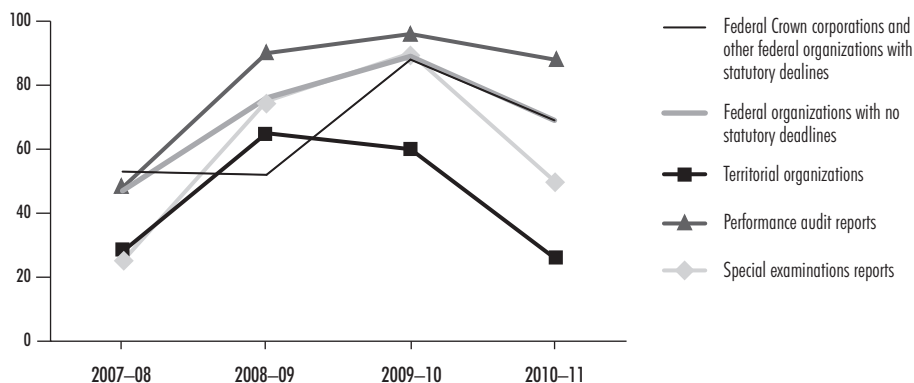
Exhibit 6 – Percentage of audits completed on time



On budget. For all of our audits, being “on budget” means completing the audit in no more than 115 percent of the budgeted hours for the audit. This recognizes that factors outside the control of the audit team, such as client readiness and the number and complexity of issues identified, can affect time spent on an audit. It also reflects the balance we want to establish between assuring we do quality work and meeting our budgets.

In the 2010–11 fiscal year, the Office increased its on-budget targets to 80 percent. Our results for the year are mixed: We met our target for performance audits, but the results for financial audits and special examinations were below the targets we had set (Exhibit 7).

Exhibit 7 – Percentage of audits completed on budget



In our financial audit practice, 32 percent of individual federal audits (74 percent in the Northern territories) exceeded their budgets by more than 15 percent. While for the majority of our audits, our on-budget performance has been improving over the past four years, we are disappointed with this result. In particular, we were unable to sustain the significant gains we made last year, when we delivered more than 85 percent of our financial audits on-budget. Nearly half of the budget overruns were in our smaller audits, which had original budgets of less than 600 hours. For our financial audit practice as a whole, we were 9.8 percent over budget. This year saw the implementation of new auditing and accounting standards in Canada which contributed to our result.

Our results for completing financial audits of territorial organizations on budget decreased to 26 percent in the 2010–11 fiscal year—well below our performance target of 80 percent. These organizations continue to face unique challenges related to the availability of financial management and accounting expertise. In our discussions with territorial officials, we will also be emphasizing the need to improve the quality of their financial reporting processes.

While we have made changes to strengthen internal accountability for managing group level budgets, we need to take additional steps to improve accountability for the cost of individual audits.

Two of the four completed special examinations exceeded their budgets. In one case, we found a number of significant deficiencies and issued a highly critical report. Although we were aware that there could be issues, we had not budgeted sufficiently for the extent of work that was required to prepare and finalize the report in support of that opinion. In the second case, we marginally exceeded the budget, because we allocated staff to other priority work.

Ensuring our audit reports are reliable

Our audit work is guided by a rigorous methodology and a quality management system (QMS). Annual internal reviews and periodic external peer reviews provide the Auditor General with opinions on whether our audits are conducted in accordance with professional standards and on whether our QMS is appropriately designed and effectively implemented. Annual internal reviews also conclude on whether the opinions and conclusions contained in our audit reports are appropriate. We report publicly on the results of these reviews in order to provide assurance to members of Parliament and the public that they can rely on the opinions and conclusions contained in our audit reports. Our QMS is based on professional standards and Office policies. It provides auditors with steps that they must follow during their audits and ensures that these audits are conducted according to professional standards and Office policies. External reviews conducted by the provincial institutes of chartered accountants conclude on whether we are following professional standards and meeting their requirements for training chartered accounting students.

Internal practice reviews

Each year, we conduct practice reviews of our financial audits, special examinations, and performance audits by assessing their compliance with our QMS and with professional standards.

In the 2010–11 fiscal year, we completed 19 practice reviews:

- Eleven of financial audits
- Six of performance audits
- Two of special examinations

In all but one case, we found that the opinions and conclusions expressed in our reports were appropriate and supported by proper evidence. For the one exception, the audit team was required to add documentation to the audit file and provide their rationale for the audit conclusion reached. We also found that four audits were in full compliance with our QMS and that eleven had only one or two areas that needed improvement. In the four remaining files, we identified a number of areas where our QMS could have been implemented more rigorously.

These results demonstrate an improvement over last year. The Office is continuing to implement the RAM project to strengthen the design and implementation of our QMS.

We also followed up on previous practice review and peer review observations and recommendations. We found that the Office has made good progress in addressing recommendations from previous practice review reports as well as those from the international peer review that was conducted in the 2009–10 fiscal year. Based on the work performed, we concluded that 70 percent of the recommendations have been implemented. The outstanding recommendations will be reviewed again in subsequent follow-ups.

External reviews

Through peer reviews of the Office, conducted by other national legislative audit offices, we periodically seek independent assurance that our QMS is suitably designed and is operating effectively to produce independent, objective, and supportable information that Parliament can rely on to examine the government's performance and hold it to account.

A peer review was conducted in the 2009–10 fiscal year that encompassed all three of our main audit practices, as well as key services that directly support audit operations. The results were presented in our performance report for last year. The Office has committed to requesting an external peer review at least once during each Auditor General's ten-year mandate.

A second type of external review is conducted by the provincial institutes of chartered accountants, who review our compliance with professional standards and our training of chartered accounting students. Two reviews were conducted in the 2010–11 fiscal year, which concluded that the Office was following professional standards and was meeting the training requirements.

Internal audits

We also audit our management and administrative practices, to assure the Auditor General that the Office is complying with government policies and its own. These internal audits also provide managers with assessments and recommendations, and when they are completed, the results are published on our website. The list of internal audits and reviews completed in the 2010–11 fiscal year is in Section III—Supplementary Information.

In the 2010–11 fiscal year, we finalized an internal audit of hospitality spending within the Office. The findings indicated that the Office is in compliance with its hospitality policy. There is an adequate control framework in place to ensure that hospitality expenditures are in accordance with those requirements outlined within the policy.

Providing a respectful workplace

Our values for creating a respectful workplace are trust, integrity, and leading by example. These values define how we conduct ourselves and carry out our work. In addition, the Office strongly supports the values of competency, representativeness, non-partisanship, fairness, employment equity, transparency, flexibility, affordability, and efficiency.

The Office includes these values in all of its human resource activities. In addition, since 2005, 50 percent of manager performance pay has been tied to people management skills.

The Office has set four objectives for providing a respectful workplace, each with its own indicators and targets:

- Provide a workplace environment where employees are satisfied and engaged
- Promote a bilingual workplace
- Assemble a workforce that represents the Canadian workforce
- Ensure that qualified, capable employees are available to carry out our mandate

Satisfied and engaged employees

The Office conducted its most recent employee satisfaction survey in May 2010. While results continue to be very positive overall, the Office has implemented a number of initiatives in response to staff recommendations. We recognize that maintaining employee engagement can be particularly challenging during periods of economic restraint.

Our new Respectful Workplace Policy introduces the concept of, and provides examples of, disrespectful behaviour in the workplace. The policy provides clear descriptions of individual responsibilities and accountabilities, to help to ensure that discrimination and harassment are not present in the Office. The policy also outlines informal and formal complaint resolution processes for addressing interpersonal issues. The launch of the new policy in March 2011 was a significant advancement in helping to ensure that the workplace is free from discrimination and harassment. We expect to provide both employees and management the opportunity to further discuss how the Office can continue to maintain a respectful and considerate workplace environment.

Our Human Resource team provides information sessions throughout the year on a wide range of people management policies and protocols to ensure consistency in the communication and understanding of best practices within the Office.

A bilingual workforce

Bilingual capacity in the management group has remained consistent with 84 percent of our senior management group (assistant auditors general and principals) meeting the language requirements of their positions in 2011, compared with 85 percent in 2010.

In 2011, 73 percent of directors met the language requirements for their positions, compared with 77 percent (restated from 84 percent due to a change in calculation method) in 2010. This decline can be attributed to reductions in our language training as well as an atypical attrition in bilingual directors over the past year.

A representative workforce

We are proud to announce that we have achieved 100-percent representation in all four Employment Equity groups: Aboriginal people, visible minorities, people with disabilities, and women. Our Employment Equity Committee organizes numerous events throughout the year to build awareness of diversity issues and mark special occasions for our various communities.

Retention rate

The Office's retention rate has remained stable at 89 percent, slightly below our 90 percent target. The Office continues to focus on minimizing turnover in specific target groups, especially in the accounting field. Currently, our central audit resource planning and career management team facilitates the allocation of staff to projects and supports audit community members in their professional development through assignment rotation and mentoring programs. The Office has begun to implement changes to our orientation and integration programs to ensure that employees can more effectively move between teams. We are also reviewing our exit interview process in order to more effectively capture information that can then be incorporated into our human resource planning efforts.

The Office is investing in the renewal of our training and development programs. We are doing so both in response to changes in auditing standards and as part of our commitment to continuous learning and organizational excellence. Our strategic alliance with a major accounting firm has allowed us to share knowledge and resources, and we are using many of their insights and lessons learned to develop a curriculum that is tailored to our audit community.

Financial performance

Our 2010–11 budget was \$102.6 million. This amount consisted of the \$85.1 million provided in Main Estimates, \$13.7 million for services provided by other government organizations without charge, and \$3.8 million provided in Supplementary Estimates and other adjustments.

In the 2010–11 fiscal year, parliamentary appropriations provided totalled \$88.3 million (Exhibit 8). The \$88.3 million comprised the \$85.1 million in Main Estimates and a further \$3.8 million in Supplementary Estimates and adjustments and transfers, less \$0.6 million related to cost containment measures.

Exhibit 8—Voted and statutory appropriations

| Vote # or statutory item (S) | Vote or statutory wording | 2010–11 (\$ millions) | | |
|------------------------------|---|-----------------------|-------------------------|---------------------|
| | | Main Estimates | Appropriations provided | Appropriations used |
| 15 | Program expenditures | 75.1 | 78.8 | 76.6 |
| (S) | Contributions to employee benefit plans | 10.0 | 10.1 | 10.1 |
| | Cost containment measures | | (0.6) | |
| | Total | 85.1 | 88.3 | 86.7 |

The Office used \$86.7 million of the parliamentary appropriations provided, which resulted in a lapse of \$1.6 million in the 2010–11 fiscal year (\$4.4 million in the 2009–10 fiscal year). As part of the year-end adjustments, the Office will be reimbursed an additional \$2.7 million for parental and severance payments, which will increase the amount that can be carried forward to the 2011–12 fiscal year. Like government departments and agencies, the Office may carry forward lapsed amounts and adjustments of up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year, subject to parliamentary approval.

Our international contribution

Our international strategy guides our international activities and positions the Office to meet future opportunities and challenges. The strategy has four goals:

- Contribute to the development and adoption of appropriate and effective professional standards
- Share knowledge among audit offices
- Build capabilities and professional capacities of audit offices
- Promote better managed and accountable international institutions

Contributing to the development and adoption of appropriate and effective professional standards

The Office plays an active role in shaping professional auditing standards, particularly as they relate to the public sector. Office employees participate in various task forces of the International Auditing and Assurance Standards Board to help revise and develop International Standards on Auditing.

The Office is also a member of the Professional Standards Committee's Subcommittee on Financial Audit Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI). This subcommittee supports and contributes to the development of high-quality guidelines that are globally accepted for auditing financial statements in the public sector.

Sharing knowledge among audit offices

Office employees participate in various INTOSAI committees, including the

- Subcommittee on Performance Audit,
- Working Group on Information Technology Audit,
- Working Group on Environmental Auditing,
- Working Group on Value and Benefits of Supreme Audit Institutions,
- Subcommittee to Promote Increased Capacity Building Activities Among INTOSAI Members,
- Working Group on Public Debt, and
- Task Force on the Global Financial Crisis.

The Office, represented by the Auditor General, assumed the chair of the Professional Standards Committee's Subcommittee on Accounting and Reporting of INTOSAI in November 2007.

Building capabilities and professional capacities of audit offices

The Office is helping to build capacity in audit institutions in French sub-Saharan Africa, through partnerships with the Canadian International Development Agency (CIDA) and two executing agencies. We also provide training to auditors from other national audit offices through the International Legislative Audit Assistance Program for Improved Governance and Accountability of the Canadian Comprehensive Auditing Foundation. This CIDA-funded program, which was established in 1980, brings auditors from other national audit offices to Canada for 10 months of training in performance auditing, accountability, and governance.

Promoting better managed and accountable international institutions

Working with Foreign Affairs and International Trade Canada, the Office successfully bid to become the external auditor of the International Labour Organization for a four-year term, effective in 2008. The Office is funded through our appropriation for this work. Fees charged to recover the direct costs for this audit are non-responsible and are deposited to the Consolidated Revenue Fund. In past years, the Office was also the external auditor of a number of United Nations organizations.

Section III—Supplementary Information

Financial statements



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Management of the Office of the Auditor General of Canada is responsible for the preparation of the accompanying financial statements for the year ended 31 March 2011 and for all information contained in these statements. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Office's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the Office's Departmental Performance Report, is consistent with these audited financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting, which is designed to provide reasonable assurance that financial information is reliable; that assets are safeguarded; and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through the careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communications aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Office; and through an annual assessment of the effectiveness of the system of internal control over financial reporting.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level and may not prevent or detect misstatements. It is based on an on-going process designed to identify and prioritize key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of the Office's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Office's operations. As a basis for recommending approval of the financial statements to the Executive Committee, the Office's Audit Committee reviews management's arrangements for internal controls and the accounting policies employed by the Office for financial reporting purposes. The Audit Committee also meets independently with the Office's internal and external auditors to consider the results of their work.

The Policy on Internal Control requires an assessment of the design effectiveness and operating effectiveness of internal control over financial reporting. For the year ended 31 March 2011, the Office conducted its first assessment and concluded that the internal control system over financial reporting is well designed and functioning effectively. No significant weaknesses were noted. The results and plan for on-going monitoring are summarized in the Annex to the Statement of Management Responsibility.¹

Welch LLP, Lévesque Marchand SENC, Chartered Accountants, the independent auditor for the Office of the Auditor General of Canada, has expressed an opinion on the fair presentation of the financial statements of the Office in conformity with Canadian generally accepted accounting principles for the public sector, which does not include an audit opinion on the annual assessment of the effectiveness of the Office's internal controls over financial reporting.

John Wiersema, FCA
Interim Auditor General of Canada

Lyn Sachs, FCA
Assistant Auditor General and
Chief Financial Officer

Ottawa, Canada
7 September 2011

¹The Annex can be found on the Office's website at www.oag-bvg.gc.ca

Independent Auditor's Report

To the Speaker of the House of Commons

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Auditor General of Canada, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and deficit, change in net debt and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for the public sector and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Canada as at March 31, 2011, and the results of its operations, the change in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the Office of the Auditor General of Canada that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations and the *Auditor General Act* and regulations.

Welch LLP
Lévesque Marchand SENC
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
7 September 2011

Office of the Auditor General of Canada
Statement of Financial Position
as at 31 March

| | 2011 | 2010 |
|--|---------------------------|----------|
| | (in thousands of dollars) | |
| Financial assets | | |
| Due from the Consolidated Revenue Fund | 7,916 | 7,494 |
| Accounts receivable | 624 | 832 |
| | 8,540 | 8,326 |
| Liabilities | | |
| Accounts payable and accrued liabilities | | |
| Due to employees | 3,692 | 2,649 |
| Due to others | 3,090 | 4,055 |
| Vacation pay | 3,630 | 3,667 |
| Post-employment benefits (note 5) | 14,240 | 14,021 |
| | 24,652 | 24,392 |
| Net debt (note 6) | (16,112) | (16,066) |
| Non financial assets | | |
| Prepaid expenses | 292 | 358 |
| Tangible capital assets (note 7) | 2,858 | 3,509 |
| | 3,150 | 3,867 |
| Deficit (note 8) | (12,962) | (12,199) |

Contingent liabilities (note 12)

The accompanying notes are an integral part of these financial statements.

Approved by

John Wiersema, FCA
Interim Auditor General of Canada

Lyn Sachs, FCA
Assistant Auditor General and
Chief Financial Officer

**Office of the Auditor General of Canada
Statement of Operations and Deficit
for the year ended 31 March**

| | 2011 | 2010 |
|--|---------------------------|-----------------|
| Expenses (note 9) | (in thousands of dollars) | |
| Financial audits of Crown corporations, territorial governments, other organizations, and the summary financial statements of the Government of Canada | 44,049 | 40,046 |
| Performance audits and studies | 41,162 | 42,947 |
| Special examinations of Crown corporations | 1,269 | 4,095 |
| Sustainable development monitoring activities and environmental petitions | 1,004 | 1,157 |
| Assessments of agency performance reports | 712 | 358 |
| Total cost of audits | 88,196 | 88,603 |
| Professional practices (note 10) | 13,496 | 11,627 |
| Total cost of operations | 101,692 | 100,230 |
| Costs recovered | | |
| International audits | 786 | 693 |
| Other | 219 | 219 |
| Costs recovered not available for use | (912) | (894) |
| Net costs recovered | 93 | 18 |
| Net cost of operations | 101,599 | 100,212 |
| Government funding | | |
| Parliamentary appropriations used (note 4) | 86,667 | 87,807 |
| Services provided without charge (note 11) | 14,169 | 13,952 |
| | 100,836 | 101,759 |
| Annual (deficit)/surplus | (763) | 1,547 |
| Deficit, beginning balance | (12,199) | (13,746) |
| Deficit, ending balance | (12,962) | (12,199) |

The accompanying notes are an integral part of these financial statements.

Office of the Auditor General of Canada
Statement of Change in Net Debt
for the year ended 31 March

| | 2011 | 2010 |
|--|---------------------------|----------|
| | (in thousands of dollars) | |
| Annual (deficit)/surplus | (763) | 1,547 |
| Acquisitions of tangible capital assets | (503) | (1,267) |
| Amortization of tangible capital assets | 1,154 | 1,255 |
| | (112) | 1,535 |
| Acquisition of prepaid expenses | (292) | (358) |
| Use of prepaid expenses | 358 | 283 |
| | 66 | (75) |
| (Increase) decrease in net debt, during the year | (46) | 1,460 |
| Net debt, beginning of year | (16,066) | (17,526) |
| Net debt, end of year | (16,112) | (16,066) |

The accompanying notes are an integral part of these financial statements.

Office of the Auditor General of Canada
Statement of Cash Flow
for the year ended 31 March

| | 2011 | 2010 |
|--|---------------------------|----------|
| Operating transactions | (in thousands of dollars) | |
| Cash paid for | | |
| Employee salaries, wages and benefits | (64,717) | (66,415) |
| Statutory contributions to employee benefit plans | (10,942) | (9,543) |
| Materials, supplies and services | (10,919) | (10,174) |
| Services provided by related parties | (2,114) | (1,449) |
| Other | (912) | (894) |
| | (89,604) | (88,475) |
| Cash received from | | |
| Salaries and benefits recovered for seconded employees | 2,890 | 1,242 |
| International Audits | 628 | 691 |
| Other | 344 | 563 |
| | 3,862 | 2,496 |
| Parliamentary appropriations used (note 4) | 86,667 | 87,807 |
| Cash provided by operating transactions | 925 | 1,828 |
| Capital transactions | | |
| Cash used to acquire tangible capital assets | (503) | (1,267) |
| Cash applied to capital transactions | (503) | (1,267) |
| Increase in Due from the Consolidated Revenue Fund | 422 | 561 |
| Due from the Consolidated Revenue Fund, beginning of year | 7,494 | 6,933 |
| Due from the Consolidated Revenue Fund, end of year | 7,916 | 7,494 |

The accompanying notes are an integral part of these financial statements.

Office of the Auditor General of Canada
Notes to the financial statements for the year ended 31 March 2011

1. Authority and objective

The *Auditor General Act*, the *Financial Administration Act*, and a variety of other acts and orders-in-council set out the duties of the Auditor General and the Commissioner of the Environment and Sustainable Development. These duties relate to legislative auditing of federal departments and agencies, Crown corporations, territorial governments, other organizations, and one international organization.

The program activity of the Office of the Auditor General of Canada is legislative auditing and consists of performance audits and studies of departments and agencies; the audit of the summary financial statements of the Government of Canada; financial audits of Crown corporations, territorial governments, and other organizations; special examinations of Crown corporations; sustainable development monitoring activities and environmental petitions; and assessments of agency performance reports.

The Office is funded through annual appropriations received from the Parliament of Canada and is not taxable under the provisions of the *Income Tax Act*.

Pursuant to the *Financial Administration Act*, the Office is a department of the Government of Canada for the purposes of that Act and is listed in Schedule I.1, and is a separate agency for the purposes of Schedule V.

2. Significant accounting policies

a) Basis of presentation

The financial statements of the Office have been prepared in accordance with Canadian generally accepted accounting principles for the public sector (PSAS) instead of Treasury Board Accounting Standard 1.2 (TBAS). While there are differences, the Office and the Treasury Board of Canada Secretariat have committed to reviewing the current TBAS by 31 December 2011. This will allow time for the Office and the Secretariat to find a permanent solution to resolve the differences between PSAS and TBAS.

b) Parliamentary appropriations

The Office's annual parliamentary appropriations are reported directly in the Statement of Operations and Deficit in the fiscal year for which they are approved by Parliament and used by the Office.

c) Costs recovered

The costs of audits are paid from monies appropriated by Parliament to the Office. Fees for international audits generally recover the direct costs incurred and are recognized in the period the audit services are provided. Amounts recovered are deposited in the Consolidated Revenue Fund. Other costs recovered represent audit professional services provided to members of the

Canadian Council of Legislative Auditors (CCOLA), and other refunds and adjustments. Direct salary and other costs recovered from members of CCOLA are available for use by the Office.

d) Due from the Consolidated Revenue Fund

The financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of Canada. The “Due from the Consolidated Revenue Fund” balance represents the amount of cash that the Office is entitled to draw from the Consolidated Revenue Fund, without further appropriations, in order to discharge its liabilities.

e) Tangible capital assets

Tangible capital assets are recorded at historical cost less accumulated amortization. The Office capitalizes the costs associated with the development of software used internally including software licences, installation costs, professional service contract costs, and salary costs of employees directly associated with these projects. The costs of software maintenance, project management and administration, data conversion, and training and development are expensed in the year incurred.

Amortization of tangible capital assets begins when assets are put into use and is recorded by the straight-line method over the estimated useful lives of the assets as follows:

| Tangible capital assets | Useful life |
|---|-------------|
| Leasehold improvements | 10 years |
| Informatics software | 3 years |
| Furniture and fixtures | 7 years |
| Informatics hardware and infrastructure | 3 years |
| Office equipment | 4 years |
| Motor vehicle | 5 years |

f) Accounts payable and accrued liabilities

i) Due to employees

Amounts due to employees represent obligations of the Office for salary and wages using the employees’ salary levels at year end and are funded through parliamentary appropriations.

ii) Due to others

Amounts due to others represent obligations of the Office for material and supply purchases and the cost of services rendered to the Office and are funded through parliamentary appropriations.

iii) Vacation pay

Vacation pay is expensed as benefits accrue to employees under their respective terms of employment using the employees' salary levels at year end. Vacation pay liabilities represent obligations of the Office that are funded through parliamentary appropriations.

g) Retirement and post-employment benefits

i) Retirement benefits

All eligible employees participate in the Public Service Pension Plan, a plan administered by the Government of Canada. The Office's contributions are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Office's contributions are expensed during the year in which the services are rendered and represent its total pension obligation. The Office is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

ii) Post-employment benefits

Employees are entitled to severance benefits, as provided for under their respective conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determined the accrued benefit obligation using the employees' salary at year end. Severance benefits are funded through appropriations once employees' departures are confirmed.

iii) Accumulated sick leave

Employees are entitled to sick leave benefits that accumulate but do not vest. No liability has been recorded in the financial statements in respect of these benefits as the impact is not significant.

h) Services provided without charge by other government departments

Services provided without charge by other government departments are recorded as operating expenses by the Office at their estimated cost. A corresponding amount is reported as government funding. These amounts include accommodation services provided by Public Works and Government Services Canada (PWGSC) and the costs of Public Service employee health, dental, disability, and life insurance plans as well as other payroll costs, which are administered through PWGSC and funded directly by the Treasury Board of Canada Secretariat.

i) Allocation of expenses

The Office charges all direct salary, professional service, travel, and other costs associated with the delivery of individual audits and professional practice projects directly to them. All other expenses, including services provided without charge, are treated as overhead and allocated to audits and professional practices projects based on the direct staff cost charged to them.

j) Measurement uncertainty

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for public sector, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Tangible capital assets and employee severance benefits are the most significant items for which estimates are used. Actual results could differ significantly from those estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. Change in financial statement presentation

The statement of financial position reports the net debt and accumulated deficit as the two indicators that together explain our financial position at the end of the accounting period. The statement of financial position reports financial assets and liabilities and the difference between them as the measure of the net debt. Below the net debt indicator, are reported the Office's non-financial assets, which combined with the net debt, report the accumulated deficit. The statement of change in net debt report the acquisition of tangible capital assets in the accounting period as well as other significant items that explain the difference between the surplus or deficit for the accounting period and the change in net debt in the period.

4. Parliamentary appropriations

The Office is funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and Deficit in one year may be funded through parliamentary appropriations in prior and future years.

The following is a reconciliation of appropriations provided to current year appropriations used:

| | 2011 | 2010 |
|---|---------------------------|--------|
| Appropriations: | (in thousands of dollars) | |
| Voted—operating expenditures | 78,874 | 81,662 |
| Statutory contributions to employee benefit plans | 10,077 | 10,524 |
| Proceeds from disposal of capital assets | 1 | – |
| Current year appropriations provided | 88,952 | 92,186 |
| Less: Budget 2010—Cost containment measures | 610 | – |
| Lapsed appropriations ¹ | 1,582 | 4,361 |
| Vote-netted revenues | 93 | 18 |
| | 2,285 | 4,379 |
| Current year appropriations used | 86,667 | 87,807 |

¹The Office is allowed to carry-forward into the next fiscal year the lapsed appropriations (after adjustments) of up to a maximum of 5 percent of its main estimates operating budget. In the 2010–11 fiscal year, these adjustments increase the Office's amount eligible to be carried-forward to the 2011–12 fiscal year to \$4.3 million (maximum allowed for carry forward in the 2010–11 fiscal year is \$3.8 million).

5. Retirement and post-employment benefits

a) Retirement benefits

The Office's eligible employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best 5 consecutive years of earnings. The benefits are fully indexed to the increase in the Consumer Price Index.

The Office's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor. Office and employee contributions to the Plan are as follows:

| | 2011 | 2010 |
|------------------------|---------------------------|-------|
| | (in thousands of dollars) | |
| Office contributions | 7,074 | 7,598 |
| Employee contributions | 3,281 | 3,443 |

b) Post-employment benefits

The Office provides severance benefits to its employees based on years of service and salary at termination of employment. The method used to estimate the liability reflects the salary at the end of the fiscal year and provides for one week of salary per year of service up to 30 years for non-management and 28 years for the management category. The cost of these benefits is accrued in the financial statements as employees render the services necessary to earn them. The Office's severance benefits are not pre-funded and will be paid from future appropriations. Information about the severance benefits, measured as at 31 March, is as follows:

| | 2011 | 2010 |
|---|---------------------------|--------|
| | (in thousands of dollars) | |
| Severance benefit obligation, beginning of year | 14,021 | 13,465 |
| Expense for the year | 1,541 | 1,068 |
| Benefits paid during the year | (1,322) | (512) |
| Severance benefit obligation, end of year | 14,240 | 14,021 |

6. Net debt

The net debt is calculated as the difference between liabilities and financial assets. Post-employment benefits represent the most significant component of net debt as these obligations are paid from future parliamentary appropriations.

7. Tangible capital assets

| | Cost | | | | Accumulated amortization | | | | 2011 Net book value | 2010 Net book value |
|---|--------------------|--------------|-----------|--------------------|--------------------------|--------------|-----------|--------------------|---------------------------|---------------------------|
| | Opening balance | Acquisitions | Disposals | Closing Balance | Opening balance | Amortization | Disposals | Closing Balance | | |
| (in thousands of dollars) | | | | | | | | | | |
| Leasehold improvements | 3,568 | 88 | 35 | 3,621 | 1,954 | 367 | 35 | 2,286 | 1,335 | 1,614 |
| Informatics software | 2,179 | 275 | 54 | 2,400 | 1,373 | 313 | 54 | 1,632 | 768 | 806 |
| Furniture and fixtures | 4,729 | 86 | 254 | 4,561 | 4,227 | 245 | 254 | 4,218 | 343 | 502 |
| Informatics hardware and infrastructure | 1,159 | 35 | 268 | 926 | 820 | 156 | 268 | 708 | 218 | 339 |
| Office equipment | 1,127 | 19 | 28 | 1,118 | 890 | 67 | 28 | 929 | 189 | 237 |
| Motor vehicle | 31 | 0 | 0 | 31 | 20 | 6 | 0 | 26 | 5 | 11 |
| | 12,793 | 503 | 639 | 12,657 | 9,284 | 1,154 | 639 | 9,799 | 2,858 | 3,509 |

8. Deficit

The deficit represents liabilities incurred by the Office, net of capital assets and prepaid expenses that have not yet been funded through appropriations. Significant components of this amount are post-employment benefits and vacation pay liabilities.

9. Summary of expenses by major classification

Summary of expenses by major classification for the years ended 31 March are as follows:

| | 2011 | 2010 |
|--|----------------|----------------|
| (in thousands of dollars) | | |
| Salaries and employee benefits | 77,650 | 76,284 |
| Office accommodation | 8,870 | 8,695 |
| Professional services | 6,840 | 6,673 |
| Travel and communication | 4,204 | 4,263 |
| Informatics, informatics maintenance and repairs, office equipment, and furniture and fixtures | 2,488 | 2,871 |
| Materials, supplies, and other payments | 984 | 889 |
| Printing and publications services | 656 | 555 |
| Total cost of operations | 101,692 | 100,230 |

The total cost of operations includes services provided without charge by other government departments as explained in note 11.

10. Professional practices

The Office works with other legislative audit offices and professional associations, such as the Canadian Institute of Chartered Accountants, to advance legislative audit methodology, accounting and auditing standards, and best practices. International activities include participation in organizations and events that have an impact on our work as legislative auditors. Peer reviews include the cost of participating in peer reviews of other national legislative audit offices and being the subject of a peer review.

| | 2011 | 2010 |
|--|---------------------------|---------------|
| | (in thousands of dollars) | |
| Methodology and knowledge management | 8,713 | 5,831 |
| International activities | 2,733 | 2,798 |
| Participation in standard-setting activities | 999 | 966 |
| Canadian Council of Legislative Auditors | 679 | 893 |
| Peer reviews | 372 | 1,139 |
| Professional practices | 13,496 | 11,627 |

11. Related party transactions

The Office is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Office enters into transactions with these organizations in the normal course of business and on normal trade terms. As Parliament's auditor, the Office is mindful of its independence and objectivity when entering into any such transactions. The Office conducts independent audits and studies without charge to federal departments and agencies, Crown corporations, territorial governments, and other organizations.

In 2011, the Office incurred expenses of \$26.1 million (\$26.1 million in 2010) and recovered expenses of \$2.4 million (\$1.7 million in 2010) from transactions in the normal course of business with other government departments, agencies, and Crown corporations. These expenses include services provided without charge as follows:

| | 2011 | 2010 |
|--------------------------|---------------------------|---------------|
| | (in thousands of dollars) | |
| Office accommodation | 8,865 | 8,695 |
| Employee insurance plans | 5,304 | 5,257 |
| | 14,169 | 13,952 |

These amounts are included in expenses shown in note 9.

As at 31 March, the accounts receivable and payable with other government departments, agencies, and Crown corporations are as follows:

| | 2011 | 2010 |
|---------------------|---------------------------|-------|
| | (in thousands of dollars) | |
| Accounts receivable | 195 | 564 |
| Accounts payable | 163 | 1,304 |

These amounts are included respectively in accounts receivable and “due to others” on the statement of financial position.

12. Contingent liabilities

In the 2000–01 fiscal year, the Public Service Alliance of Canada filed a pay equity suit against the Crown, alleging that discrimination based on sex had occurred between 1982 and 1997 in seven separate employers. The Office is one of the seven employers named in the suit. The Alliance requests that the Treasury Board of Canada Secretariat or the responsible employer retroactively increase the wage rates of employees of specific separate employers to remedy the discrimination. This pay equity claim was originally filed at the Canadian Human Rights Commission but was stayed. It is now before the Public Service Labour Relations Board as this organization is now responsible for pay equity complaints for the public sector. In the opinion of management, the outcome and the amount of the suit are not determinable at this time and, accordingly, no liability has been recognized in the financial statements.

13. Comparative figures

Certain 2009–10 comparative figures have been reclassified to conform to the presentation adopted in the 2010–11 fiscal year.

Financial tables

This table highlights the Office’s contracting activity for services in the 2010 calendar year.

| Table 1—Total value of service contracts | | | | | | |
|--|--|------------|----------------|---|-----------|----------------|
| | Contracts with original value less than \$25,000 | | | Contracts with original value greater than \$25,000 | | |
| | (\$) | Number | Percentage | (\$) | Number | Percentage |
| Competitive contracts | 1,234,451 | 112 | 37.7% | 3,044,967 | 43 | 95.4% |
| Non-competitive contracts | 2,040,332 | 335 | 62.3% | 146,600 | 1 | 4.6% |
| Total | 3,274,783 | 447 | 100.00% | 3,191,567 | 44 | 100.00% |

Contracts are classified based on the total original value, which includes original fees, expenses and taxes. However, the amounts reported also include any amendments. Contracts with a total original value of less than \$25,000 are sometimes amended in accordance with the Office’s contracting policy and in some cases the total amended value may exceed \$25,000—these contracts are still included with “contracts with original value less than \$25,000.” There were two non-competitive contracts with a total original value of less than \$25,000 and an amended value greater than \$25,000. The total value of the amendments to these contracts was \$8,998. Further disclosure can be found on the OAG website where we report the total amended value (total original value plus any amended value) of contracts over \$10,000.

The Auditor General’s power to enter into contracts for services is set out in subsection 16(2) of the *Auditor General Act* and the Office is subject to the *Government Contracts Regulations*.

The Auditor General’s Policy on Contracting for Services requires that contracts for estimated fees of \$25,000 or more be awarded through competition, unless they meet one of the three criteria for exemption: the need is one of pressing urgency, it is not in the public interest to solicit bids due to the nature of the work, or there is only one person capable of performing the work. Contracts that exceed the North American Free Trade Agreement (NAFTA) threshold follow NAFTA rules.

In 2010, the service contract with a value greater than \$25,000 issued on a non-competitive basis was for legal advice related to an audit.

Table 2—Travel and hospitality expenses

Disclosure of the travel and hospitality expenses for the Auditor General, the Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, and the assistant auditors general as well as for corporate events is available on our website under Proactive Disclosure. The Office follows the Treasury Board Travel Directive and the Treasury Board Hospitality Policy, as appropriate for Agents of Parliament.

Table 3—Office memberships¹

| | (\$ thousands) |
|--|----------------|
| Canadian Comprehensive Auditing Foundation (CCAF-FCVI Inc.) | 455.0 |
| Conference Board of Canada | 11.2 |
| Communication Community Office | 10.0 |
| Head of Federal Agencies Secretariat | 7.5 |
| International Organization of Supreme Audit Institutions | 6.3 |
| Public Policy Forum | 5.5 |
| Association des institutions supérieures de contrôle ayant en commun l'usage du français | 1.0 |

¹ The Office participates and supports professional organizations related to its legislative auditing program. The Office also pays individual employee membership fees to a variety of professional organizations.

Table 4—Compensation and benefits

The following is a summary of compensation and selected benefits paid to the Office employees by level. Office employees receive benefits comparable to other federal government employees, which are not included in this table.

| Position | FTEs ¹ | Salary (\$) | Bilingual bonus (\$) | Performance pay ² (\$) | Automobile ³ (\$) | Membership (\$) | Total (\$) |
|---|-------------------|----------------------|----------------------|-----------------------------------|------------------------------|-----------------|-----------------|
| Auditor General | 1 | 318,600 ⁴ | | | 3,795 | 985 | 323,380 |
| Deputy Auditor General | 1 | 206,450–247,120 | | 0–40,280 | | | 206,450–287,400 |
| Commissioner of the Environment and Sustainable Development | 1 | 162,885–213,680 | | 0–34,830 | | | 162,885–248,510 |
| Assistant auditors general | 14 | 162,885–194,255 | | 0–31,700 | | | 162,885–225,955 |
| Senior principals | 6 | 116,975–169,470 | | 0–27,770 | | | 116,975–197,240 |
| Principals | 57 | 116,975–150,870 | | 0–18,940 | | | 116,975–169,810 |
| Senior directors | 3 | 91,285–135,585 | | 0–17,080 | | | 91,285–152,665 |
| Directors | 95 | 91,285–121,055 | | 0–15,200 | | | 91,285–136,255 |
| Auditors | 257 | 45,867–101,811 | 800 | 0–3,000 | | | 45,867–105,611 |
| Audit support services | 194 | 34,437–92,391 | 800 | | | | 34,437–93,191 |
| Total FTEs | 629 | | | | | | |

¹ Full-time equivalents (FTEs) used in the 2010–11 fiscal year.

² Amounts represent the range that levels are eligible to receive in performance pay.

³ Taxable benefit for the personal use of an automobile for the 2010 calendar year.

⁴ The salary of the Auditor General is set by statute under subsection 4(1) of the *Auditor General Act* and is equal to the salary of a puisne judge of the Supreme Court of Canada.

Performance pay

Every year, managers are evaluated on their product management and people management skills, with each counting for 50 percent of the total performance pay envelope. For the 2010 calendar year, 185 of the eligible managers (99 percent) received performance pay for product management, people management, or both. The following table shows the distribution.

| Rating description | Percentage of eligible managers who received this rating in 2010 | |
|---------------------------------|--|-------------------|
| | Product management | People management |
| Did not fully meet expectations | 2% | 1% |
| Met expectations | 52% | 73% |
| Exceeded expectations | 41% | 25% |
| Exceptional performance | 5% | 1% |

Performance pay for managers who met expectations may be in the form of a salary increase and/or a bonus, and can range from 7.6 percent to 11.4 percent of a manager's salary, depending on their level. Managers who exceeded expectations are eligible for an additional bonus of between one and five percent of their salary, depending on their level and performance.

The Office's performance pay guidelines differ from the Public Service's Performance Management Plan, in the amounts paid to managers. Both systems provide for in-range increases and additional cash lump-sum awards. Public service executives can receive in-range increases and an additional amount for at-risk pay—up to 17.6 percent (27.4 percent for executives at the EX-4 and EX-5 levels). The combined maximum performance pay for the Office, including in-range increases and bonuses, is 12.6 percent for directors and principals and 16.4 percent for senior principals, assistant auditors general, the Deputy Auditor General, and the Commissioner of the Environment and Sustainable Development. Details of performance pay by level are included in Table 4.

A total of \$2,299,747 in performance pay (including in-range increases and lump sum bonuses) was awarded to managers for 2010. In addition, 58 non-management auditors (18 percent) received a fixed performance pay of \$3,000 in keeping with the Audit Professionals collective agreement.

Report on staffing

The Auditor General has received the staffing authorities of the Public Service Commission directly through the *Auditor General Act*. Since the Commission must report annually to Parliament for the previous fiscal year on matters under its jurisdiction, the Office of the Auditor General believes it should also report annually on the Office’s staffing.

The following table takes into account the Public Service Commission’s Staffing Management Accountability Framework. It summarizes the eleven areas of accountability and identifies the indicators present in the Office. The framework is intended to ensure a values-based staffing system through which the core principles of merit and non-partisanship are applied in accordance with the core values of fairness, transparency, and access.

Staffing: Areas of accountability and indicators

| | |
|---|--|
| <p>1. Delegation of staffing to deputy heads: The process of exercising authority and establishing a well-defined structure and administration in order to support the achievement of desired results.</p> | |
| <p>Mechanisms are in place to ensure that sub-delegated managers comply with their sub-delegated authority</p> | <p>The Executive Committee approved a written delegation of authority for human resource management. Training was provided to all hiring managers. New appointees to the Management Group (directors and principals) are required to attend a half- or full-day transition session. Issues discussed include human resource responsibilities and delegated authorities.</p> |
| <p>2. Planning for staffing and monitoring of results: Staffing strategies are planned based on analyses of the workforce and of staffing trends and patterns.</p> | |
| <p>Staffing strategies support organisational staffing priorities and align with current and future needs. The Office of the Auditor General (OAG) assesses the extent to which expected results for staffing are achieved and adjusted, as required.</p> | <p>Staffing needs are assessed annually. Based on these needs and on the OAG’s budget, full-time equivalent (FTE) positions are allocated to each assistant auditor general (AAG). The AAGs are then responsible, with the help of Human Resources (HR), for staffing their groups. The allocation of resources is monitored regularly by the Career Management and Resource Management Team in order to identify and resolve gaps between needs in specific audits and available resources.</p> <p>Each month, a Status Report on the overall staffing levels and FTE budgets is provided to the Executive Committee for monitoring. The Staffing Group and the Finance Group meet monthly to ensure that resources are allocated effectively and meet targets established in the plan.</p> |
| <p>3. Organizational human resource (HR) support systems: The OAG has access to a reasonable number of HR advisors with appropriate staffing expertise to support hiring decisions.</p> | |
| <ul style="list-style-type: none"> • Capacity of HR Advisors by volume of staffing • Learning activities undertaken by HR Advisors | <p>There were 132 staffing processes in the 2010–11 fiscal year, which resulted in 241 appointments. Three staffing advisors, plus an assistant, met the demands. A benchmarking exercise supports the belief that these resources are sufficient.</p> |

| | |
|---|--|
| <p>4. Communication: The OAG is expected to respect the <i>Public Service Employment Act</i> (PSEA) and to monitor staffing activities to ensure accountability for staffing decisions.</p> | |
| <ul style="list-style-type: none"> Staffing performance deficiencies identified by internal audit are corrected in a timely fashion | <p>An internal audit on staffing conducted in 2007 pointed out a few areas with deficiencies within the OAG staffing system. The HR team made a number of adjustments to processes to ensure that these deficiencies were addressed. The follow-up to this audit concluded that the appropriate measures were put in place.</p> |
| <p>5. Flexibility and efficiency: Resourcing approaches are adapted to the OAG's needs, and our staffing system provides good value and is timely and effective.</p> | |
| <ul style="list-style-type: none"> Managers are satisfied with the OAG's staffing processes; the length of time to staff. Candidates are satisfied with the duration of the processes | <ul style="list-style-type: none"> While this is not an area that the OAG has investigated through a formal survey, because we are a small organization, this information is regularly sought in ad hoc discussions with our hiring managers. The HR Principal regularly discusses performance of the HR team with AAGs and service leaders. Monthly reports are produced identifying open positions and positions staffed during the previous month. Regular meetings are held between staffing advisors and managers to review progress on open positions. |
| <p>6. Merit: People who are appointed meet the essential qualifications, including official languages.</p> | |
| <p>Managers and candidates are satisfied that the staffing process assessed merit. In-house investigations are conducted as required.</p> | <ul style="list-style-type: none"> Only 18 percent of employees who responded to the 2010 employee survey indicated that they believed they were not given the opportunity to demonstrate their capabilities during a competition. It is fair to note that no employees sought recourse on staffing in the 2010–11 fiscal year. As we have not had to conduct any in-house investigations into the application of merit, we have concluded that there is no concern in this area. The majority of bilingual staffing processes (84%) were deemed bilingual imperative in the 2010–11 fiscal year. For these imperative staffing actions, all candidates met the Official Language qualifications of the position prior to being appointed. It should be noted that the Auditor General has the power to waive the imperative requirement if the position requires specific expertise(s)—such as senior financial audit positions. |
| <p>7. Non-partisanship: Appointments and promotions are done objectively and are free from political influence.</p> | |
| <ul style="list-style-type: none"> Managers' perceptions of external pressure to select a particular candidate Investigations related to political influence in staffing | <p>The OAG has not had to conduct any investigations of political influence in the staffing process.</p> |
| <p>8. Representativeness: Appointment processes are conducted without bias and do not create systemic barriers.</p> | |
| <p>Staffing related provisions or initiatives to increase representativeness</p> | <p>As the OAG's overall representation is exceeding targets, this is not an area of concern. Data on promotions, departures, and new-hires is reviewed and monitored every year to ensure that the OAG has not inadvertently created barriers to employment.</p> |

| | |
|--|--|
| <p>9. Access: People from across Canada have a reasonable opportunity to be considered for employment at the OAG.</p> | |
| <ul style="list-style-type: none"> • Percentage of external appointments that are advertised • Percentage of these external appointments that were advertised nationally | <ul style="list-style-type: none"> • During the 2010–11 fiscal year, about 55 percent of all processes were open to the public (external). • Of those external processes, 100 percent were advertised nationally. |
| <p>10. Fairness: Communication ensures the integrity of the appointment process by being transparent, easy to understand, timely, and accessible, and by including the relevant stakeholders.</p> | |
| <ul style="list-style-type: none"> • Percentage of indeterminate hires converted from casual status • Perception of fairness in staffing: “In my work unit, the process of selecting a person for a position is done fairly” | <ul style="list-style-type: none"> • The OAG employed six casual employees in the 2010–11 fiscal year. • No casual employees were converted to term employment during the period. • Results of the 2010 employee survey indicate that only 19 percent of employees believe that the process of selecting candidates in their work unit was not done fairly. |
| <p>11. Transparency: Information about staffing strategies, decisions, policies, and practices is communicated in an open and timely manner.</p> | |
| <p>Organizational staffing priorities are communicated on the OAG website and contents are clearly communicated to managers, employees, and bargaining units, where applicable</p> | <ul style="list-style-type: none"> • The OAG produces an annual HR report that includes the number of hires, departures, and turnover rate, as well as reasons for departures and anticipated retirement rates. This document is made available to employees on the INTRANet. • All competitions are advertised in both languages. Competitions open to people outside the Office are advertised on our website (“Careers”). Most of them were also posted on the Government of Canada website (“Jobs Open to the Public”). • The multi-year recruitment and retention strategy is available on our INTRANet. |

Sustainable development commitments

Sustainable development requires the integration of environmental, economic and social considerations in the development and implementation of government programs. Our latest Sustainable Development Strategy was tabled in Parliament in December 2006 and is available on our website. It included key commitments designed to further integrate environmental considerations into our audit selection and planning decisions. We continue to strive to achieve the targets set out in the strategy, and our progress is summarized in the following table.

| Selected sustainable development commitments and targets | | |
|---|---|----------------|
| Commitment | Indicators and targets | 2010-11 Actual |
| Prepare long-term audit plans and individual performance audits using the Office's environmental risk assessment guide. (4th E Practice Guide). | 100 percent of performance audit teams use the 4th E Practice Guide's screening tool and consult with environmental specialists to identify and assess environmental risks when they are preparing long-term audit plans. | 100% |
| | 100 percent of performance audit teams use the 4th E Practice Guide's screening tool and consult with internal environmental specialists to determine if there are any important environmental issues related to their audit topic. | 100% |
| Provide enhanced support and advice to audit teams conducting special examinations where important environmental risks for Crown corporations have been identified. | 100 percent of these cases receive enhanced support and advice starting in 2007. | 100% |

List of completed performance audits

The following is a list of the performance audits planned for in our 2010–11 Report on Plans and Priorities (RPP), including their planned and actual tabling. Names are based on titles of publication.

Federal performance audits

| Auditor General of Canada | Included in 2010–11 RPP | Reported in the 2010–11 fiscal year |
|---|--------------------------------|--|
| Electronic Health Records in Canada—Summary of Federal and Provincial Audit Reports | Spring 2010 | April 2010 |
| Aging Information Technology Systems | Spring 2010 | April 2010 |
| Modernizing Human Resource Management | Spring 2010 | April 2010 |
| Rehabilitating the Parliament Buildings | Spring 2010 | April 2010 |
| Sustaining Development in the Northwest Territories | Spring 2010 | April 2010 |
| Scientific Research—Agriculture and Agri-Food Canada | Spring 2010 | April 2010 |
| Special Examinations of Crown Corporations—2009 | Spring 2010 | April 2010 |
| Managing Conflict of Interest | Fall 2010 | October 2010 |
| Animal Diseases—Canadian Food Inspection Agency | Fall 2010 | October 2010 |
| Management and Control in Small Entities | Fall 2010 | October 2010 |
| Facilitating the Flow of Imported Commercial Goods—Canada Border Services Agency | Fall 2010 | October 2010 |
| Acquisition of Military Helicopters | Fall 2010 | October 2010 |
| Registered Charities—Canada Revenue Agency | Fall 2010 | October 2010 |
| Regulating and Supervising Large Banks | Fall 2010 | October 2010 |
| Service Delivery | Fall 2010 | October 2010 |
| Canada’s Economic Action Plan | Fall 2010 | October 2010 |
| Unplanned | Included in 2010–11 RPP | Reported in the 2010–11 fiscal year |
| Public Sector Integrity Commissioner of Canada | No | December 2010 |

| Commissioner of the Environment and Sustainable Development | Included in the 2010–11 RPP | Reported in the 2010–11 fiscal year |
|--|------------------------------------|--|
| Environmental Petitions | Fall 2010 | December 2010 |
| Oil Spills from Ships | Fall 2010 | December 2010 |
| Monitoring Water Resources | Fall 2010 | December 2010 |
| Adapting to Climate Impacts | Fall 2010 | December 2010 |
| Assessing Cumulative Environmental Impacts | Fall 2010 | Postponed—Currently planned to be reported in October 2011 |

Territorial performance audits

| Territorial performance audits | Included in 2010–11 RPP | Reported in the 2010–11 fiscal year |
|---|------------------------------------|--|
| Education in the Northwest Territories—Department of Education, Culture and Employment | April 2010 | Postponed to May 2010 |
| Yukon Health Services and Programs—Department of Health and Social Services | February 2011 | February 2011 |
| Children, Youth and Family Programs and Services in Nunavut | March 2011 | March 2011 |
| Unplanned | Included in the 2010–11 RPP | Reported in the 2010–11 fiscal year |
| Northwest Territories Deh Cho Bridge Project—Department of Transportation | No | March 2011 |
| Northwest Territories Health Programs and Services—Department of Health and Social Services | No | March 2011 |

List of completed special examinations

| Special examination | Original statutory deadline* | Revised statutory deadline* | Transmission date |
|---------------------------------------|------------------------------|-----------------------------|-------------------|
| Canadian Dairy Commission | 29 June 2010 | 29 June 2015 | 16 March 2011 |
| Freshwater Fish Marketing Corporation | 3 March 2010 | 3 March 2015 | 15 December 2010 |
| National Arts Centre Corporation | 29 June 2010 | 29 June 2015 | 29 July 2010 |
| Telefilm Canada | 29 June 2010 | 29 June 2015 | 10 June 2010 |

*The *Budget Implementation Act, 2009* changed the frequency of special examinations in the *Financial Administration Act*, from at least once every five years to at least once every ten years. The statutory deadlines and schedule of planned special examinations were revised following that change.

List of internal audits and reviews

| Internal audits and reviews completed in the 2010–11 fiscal year | | |
|---|------------|------------------------------|
| Name of internal audit | Audit type | Completion date ¹ |
| Report on a Review of the Annual Audit Practice—Practice Reviews Conducted in the 2010–11 Fiscal Year | Compliance | December 2010 |
| Report on a Review of the Performance Audit Practice—Practice Reviews Conducted in the 2010–11 Fiscal Year | Compliance | May 2011 ² |
| Report on a Review of the Special Examination Practice—Practice Reviews Conducted in the 2010–11 Fiscal Year | Compliance | October 2011 ³ |
| Controls Over the Hospitality Spending—Internal Audit | Compliance | December 2010 |
| Follow-up on actions taken by management on previous practice review and peer review observations and recommendations | Follow-up | December 2010 |

¹ Reports will be posted on the website of the Office of the Auditor General once they have been translated.

² The individual practice reviews were conducted in the 2010–11 fiscal year, and the summary report was presented to the Audit Committee in May 2011.

³ The individual practice reviews were completed in the 2010–11 fiscal year, and the summary report will be presented to the Audit Committee in October 2011.

Our performance indicators and measures

The Office has established a set of core indicators of impact and measures of organizational performance to help inform management decision making.

Our indicators of impact help us to assess the extent to which

- our work adds value for the key users of our reports,
- our work adds value for the organizations we audit,
- key users of our reports are engaged in the audit process, and
- key users of our reports and the organizations we audit respond to our findings.

Our measures of organizational performance help us monitor the extent to which

- our work is delivered on time and on budget,
- our audit reports are reliable, and
- we provide a respectful workplace.

We use surveys to gather feedback from our clients and the organizations we audit on our performance. Information on the surveys can be found on our website at: www.oag-bvg.gc.ca (under About Us/What We Do/Accountability Reports/Client Surveys).

Indicator Table 1—Summary of our indicators of impact

| Objectives and indicators | 2009–10 Actual | 2010–11 Actual | 2010–11 Target |
|---|-------------------|-------------------------------|-----------------------------------|
| Our work adds value for the key users of our reports. | | | |
| Percentage of audit committee chairs who find our financial audits add value | 95% | 81% | 90% |
| Percentage of parliamentary committee members who find our performance audits add value | 93% ¹ | N/A ² | 90% |
| Percentage of board chairs who find our special examinations add value | 80% | See footnote #3 | 90% |
| Our work adds value for the organizations we audit. | | | |
| Percentage of Crown corporation and large-department senior managers who find our financial audits add value | 85% | 89% | 80% |
| Percentage of departmental senior managers who find our performance audits add value | 56% | 74% | 70% |
| Percentage of Crown corporation chief executive officers who find our special examinations add value | 90% | See footnote #3 | 80% |
| Key users of our reports are engaged in the audit process. | | | |
| Number of parliamentary hearings and briefings we participate in | 35 | 46 | Maintain or increase ⁴ |
| Percentage of performance audits reviewed by parliamentary committees | 68% | 62% | Maintain or Increase ⁴ |
| Key users of our reports and the organizations we audit respond to our findings. | | | |
| Percentage of reservations that are addressed from one financial audit to the next | 28% ⁵ | 26% ⁶ | 100% |
| Percentage of performance audit recommendations examined in our follow-up audits where progress has been assessed as satisfactory | | 62% | |
| Percentage of significant deficiencies that are addressed from one special examination to the next | 50% (1 of 2) | 100% (1 of 1) ⁷ | 100% |

¹ The results shown for the 2009–10 fiscal year are from the survey of parliamentarians conducted in June 2010.

² There was no survey of parliamentarians in the 2010–11 fiscal year, due to the federal election.

³ Due to the small number of respondents, percentage results are not presented. The feedback we have received has been positive and consistent with our targets.

⁴ There is no numeric target for these indicators since they depend on the number of sitting days there are in Parliament. Instead, the target is to maintain the percentage of parliamentary hearings and briefings we participate in, relative to the number of sitting days, and to maintain the percentage of audits reviewed by parliamentary committees.

⁵ This result has been restated to include only those reports that were issued in the current fiscal year. Previously, reports were included when the audit work was completed but the report not yet issued.

⁶ In completing our financial audits in the 2010–11 fiscal year, we found that only 8 of the 31 reservations contained in our 2009-10 financial audit opinions had been addressed by the organizations we audited.

⁷ For one of the four special examinations completed in the 2010-11 fiscal year there had been a significant deficiency in the previous special examination. This significant deficiency was addressed.

Indicator Table 2—Summary of our organizational performance

| Objectives and indicators | 2009–10 Actual | 2010–11 Actual | 2010–11 Target |
|--|---------------------|-------------------|-------------------|
| Our work is completed on time | | | |
| Percentage of financial audits completed on time ¹ | | | |
| • federal Crown corporations with statutory deadlines | 98% | 96% | 100% |
| • other federal organizations with statutory deadlines ² | 100% | 96% | 100% |
| • federal organizations with no statutory deadlines | 86% | 100% | 80% |
| • territorial organizations | 64% | 31% | 60% |
| Percentage of performance audit reports completed by the planned tabling date as published in the Report on Plans and Priorities | 96% | 92% | 90% |
| Percentage of special examination reports delivered on or before the statutory deadline | 100% (10 of 10) | 100% (4 of 4) | 100% |
| Our work is completed on budget | | | |
| Percentage of audits completed on budget ³ | | | |
| • Financial audits—federal Crown corporations | 90% | 69% | 80% |
| • Financial audits—other federal organizations with statutory deadlines | 84% | 65% | 80% |
| • Financial audits—federal organizations without a statutory deadline | 89% | 69% | 80% |
| • Financial audits—territorial organizations | 60% | 26% | 80% |
| • Performance audits | 96% | 88% | 80% |
| • Special examinations | 90% (9 of 10) | 50% (2 of 4) | 80% |
| Our audit reports are reliable | | | |
| Percentage of internal practice reviews that found the opinions and conclusions expressed in our audit reports were appropriate and supported by the evidence ⁴ | 100% (18 of 18) | 95% (18 of 19) | 100% |
| External peer reviews find our quality management frameworks are suitably designed and operating effectively | Mostly ⁵ | n/a ⁶ | Yes |
| We provide a respectful workplace | | | |
| Percentage of employees who believe the Office is an above-average place to work | 78% ⁷ | n/a ⁸ | 80% |
| Percentage of management who meet our language requirements | | | |
| • assistant auditors general and principals | 85% | 84% | 100% |
| • directors in bilingual regions | 77% ⁹ | 73% | 75% |
| Percentage representation relative to workforce availability for | | | |
| • women | 117% | 115% | 100% |
| • people with disabilities | 117% | 120% | 100% |

Indicator Table 2—Summary of our organizational performance (continued)

| Objectives and indicators | 2009–10 Actual | 2010–11 Actual | 2010–11 Target |
|---|-------------------|-------------------|-------------------|
| <ul style="list-style-type: none"> • Aboriginal peoples | 137% | 129% | 100% |
| <ul style="list-style-type: none"> • members of visible minorities | 90% | 109% | 100% |
| Percentage retention of audit professionals | 89% | 89% | 90% |

¹ “On time” for financial audits means the statutory deadline where one exists (usually 90 days after the year end), or 150 days after the year end where no statutory deadline exists.

² The National Battlefields Commission is excluded from this calculation as its statutory deadline is only 60 days after the year end.

³ “On budget” means that the actual hours to complete an audit did not exceed the budgeted hours by more than 15 percent.

⁴ This indicator replaces “the percentage of internal practice reviews that find our audit in compliance with our quality management frameworks.”

⁵ An international peer review found that our quality management system (QMS) was suitably designed. It found that for the performance audit and special examinations practices, the QMS was operating effectively and that for the annual audit practice, the QMS was generally operating effectively (although made recommendations to address two implementation issues).

⁶ There was no external peer review in the 2010–11 fiscal year.

⁷ The employee survey results shown were received in May 2010.

⁸ There was no employee survey in the 2010–11 fiscal year. It is a biennial survey.

⁹ The 2009–10 result has been restated from 84% as previously reported due to a change in calculation method

