



# Office of the Auditor General of Canada

## Performance Report

For the period ending  
March 31, 2002

Canada

## The Estimates Documents

Each year, the government prepares Estimates in support of its request to Parliament for authority to spend public monies. This request is formalized through the tabling of appropriation bills in Parliament.

The Estimates of the Government of Canada are structured in several parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending which Parliament will be asked to approve.

The *Report on Plans and Priorities* provides additional detail on each department and its programs primarily in terms of more strategically oriented planning and results information with a focus on outcomes.

The *Departmental Performance Report* provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the spring *Report on Plans and Priorities*.

The Estimates, along with the Minister of Finance's Budget, reflect the government's annual budget planning and resource allocation priorities. In combination with the subsequent reporting of financial results in the Public Accounts and of accomplishments achieved in Departmental Performance Reports, this material helps Parliament hold the government to account for the allocation and management of funds.

©Minister of Public Works and Government Services Canada — 2002

Available in Canada through your local bookseller or by mail from

Canadian Government Publishing — PWGSC

Ottawa, Canada K1A 0S9

Catalogue No. BT31-4/57-2002

ISBN 0-660-62135-5



## Foreword

In the spring of 2000, the President of the Treasury Board tabled in Parliament the document “Results for Canadians: A Management Framework for the Government of Canada”. This document sets a clear agenda for improving and modernising management practices in federal departments and agencies.

Four key management commitments form the basis for this vision of how the Government will deliver their services and benefits to Canadians in the new millennium. In this vision, departments and agencies recognise that they exist to serve Canadians and that a “citizen focus” shapes all activities, programs and services. This vision commits the Government of Canada to manage its business by the highest public service values. Responsible spending means spending wisely on the things that matter to Canadians. And finally, this vision sets a clear focus on results – the impact and effects of programs.

Departmental performance reports play a key role in the cycle of planning, monitoring, evaluating, and reporting of results through ministers to Parliament and citizens. Departments and agencies are encouraged to prepare their reports following certain principles. Based on these principles, an effective report provides a coherent and balanced picture of performance that is brief and to the point. It focuses on outcomes - benefits to Canadians and Canadian society - and describes the contribution the organisation has made toward those outcomes. It sets the department’s performance in context and discusses risks and challenges faced by the organisation in delivering its commitments. The report also associates performance with earlier commitments as well as achievements realised in partnership with other governmental and non-governmental organisations. Supporting the need for responsible spending, it links resources to results. Finally, the report is credible because it substantiates the performance information with appropriate methodologies and relevant data.

In performance reports, departments and agencies strive to respond to the ongoing and evolving information needs of parliamentarians and Canadians. The input of parliamentarians and other readers can do much to improve these reports over time. The reader is encouraged to assess the performance of the organisation according to the principles outlined above, and provide comments to the department or agency that will help it in the next cycle of planning and reporting.

---

This report is accessible electronically from the Treasury Board of Canada Secretariat Internet site:  
<http://www.tbs-sct.gc.ca/rma/dpr/dpre.asp>

Comments or questions can be directed to:

Results-based Management Directorate  
Treasury Board of Canada Secretariat  
L’Esplanade Laurier  
Ottawa, Ontario K1A 0R5

**OR** to this Internet address: [rma-mrr@tbs-sct.gc.ca](mailto:rma-mrr@tbs-sct.gc.ca)

**Office of the  
Auditor General of Canada**

**Performance Report**

**For the  
period ending  
31 March 2002**

---

**Sheila Fraser, FCA  
Auditor General of Canada**

---

**Honourable John Manley, P.C., MP  
Minister of Finance**

For more information contact:

**Communications**

**Office of the Auditor General of Canada**

240 Sparks Street

Ottawa, Ontario

Canada, K1A 0G6

Telephone: (613) 995-3708 or 1-888-761-5953

Fax: (613) 957-0474

E-mail: [Communications@oag-bvg.gc.ca](mailto:Communications@oag-bvg.gc.ca)

Web site: [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca)

# Table of Contents

<b>Performance at a Glance</b>	1
<b>Section 1—Message from the Auditor General</b>	7
Management Representation	10
<b>Section 2—Context</b>	11
Who we are	11
What we do	12
Who we serve	13
We work collaboratively	14
How we assess the quality of our work	16
Strategies to manage key risks	18
Our people and workplace	19
Modernizing our audit methodology and tools	21
Our sustainable development strategy	22
Renewal of our office space	23
<b>Section 3—Performance</b>	25
Performance measurement and reporting framework	25
What do we do for Parliament?	27
How well did we perform for Parliament?	27
How well did we perform when we audited federal organizations?	33
How well did we communicate our message to the media and the public?	40
What were our unintended impacts?	41
How did we compare with other legislative audit offices?	41
<b>Section 4—Financial Performance</b>	43
<b>Financial tables</b>	49
<b>Financial Statements</b>	53
<b>Section 5—Other Information</b>	67
Crosswalk between the 2001 and the 2002 Performance Reports	67
Statutory reports	67
Methodological endnotes	68
Internet site references	71



# Performance at a Glance

This Performance Report reflects a transition period for our Office in terms of performance management and reporting. Last year we introduced our results chain, which describes how we make a difference for Canadians. For 2001-02, we have continued the integration of this results chain in the way we tell our performance story. In future years, we will continue to develop new indicators and baseline measurements for them as well as establishing targets for the ones that are well established.

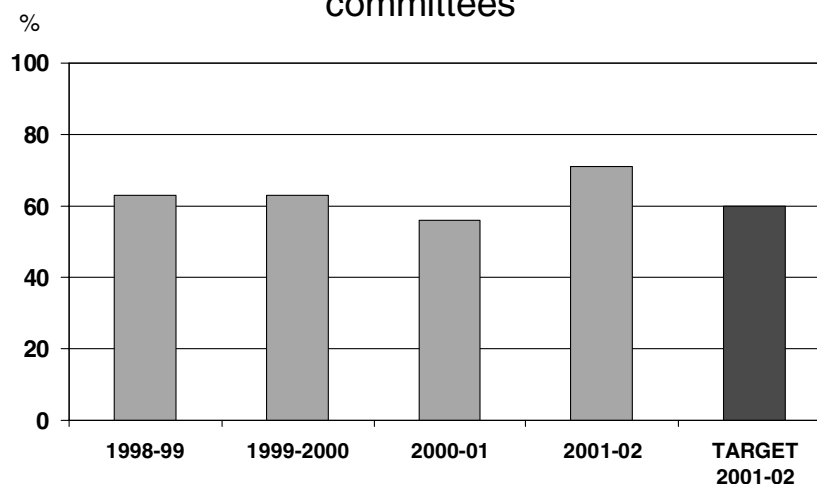
The following highlights provide an overview of our performance based on the information presently available. These indicators are not the only ones that we report on and are not intended to reflect in a comprehensive manner how our Office is managed.

## Highlights of what we do for Parliament

### Committees held hearings on 71 percent of our value-for-money audits

We expected that about 60 percent of our 2001-02 value-for-money audits would be the subject of parliamentary committee hearings. Committees held hearings on 71 percent. The hearings covered such topics as recruitment for Canada's future public service, the government-wide management of grants and contributions, the international tax administration, the maintenance of military equipment, the sustainable development management systems, and the environmental health of the Great Lakes and St. Lawrence River Basin.

Value-for-money audits reviewed by parliamentary committees



### The Standing Committee on Public Accounts endorsed 76 percent of recommendations it reviewed

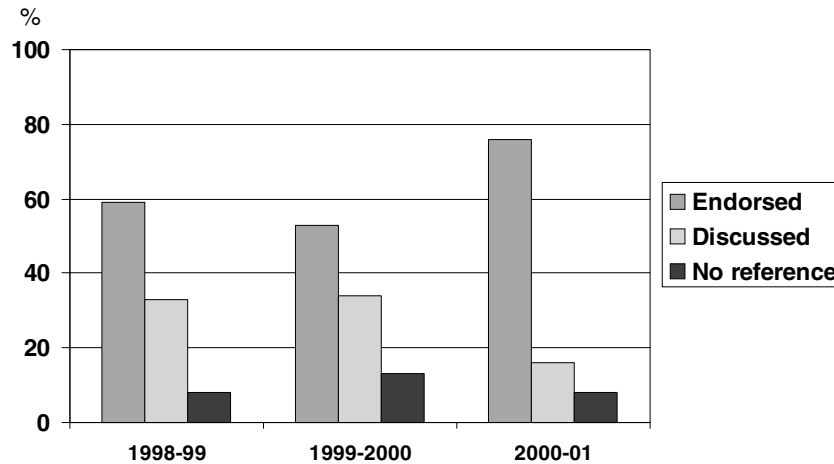
The endorsement of our recommendations by our primary client, the Standing Committee on Public Accounts, is another indicator of the quality of our work. In order to determine the level of endorsement of our reports, we calculate the percentage of recommendations included in chapters reviewed by the Standing Committee on Public Accounts and





endorsed in its reports to the House of Commons. In 2000–01, our performance was 76 percent.

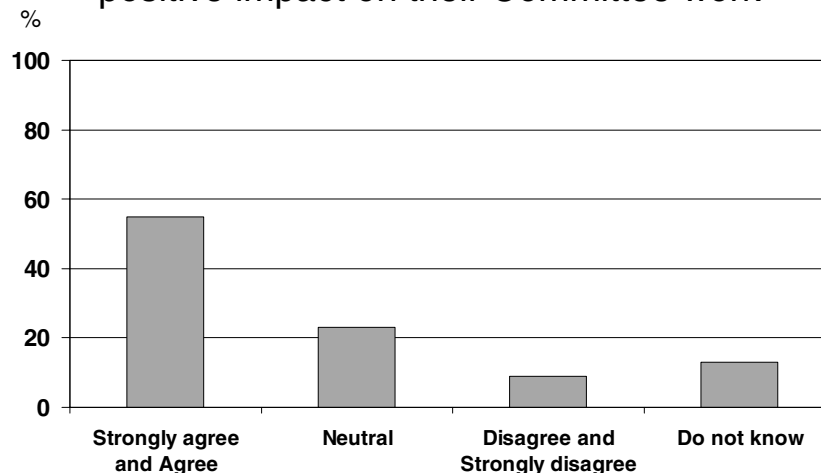
### Recommendations endorsed by the Standing Committee on Public Accounts



### Over half of parliamentarians surveyed agreed that the Office had a positive impact on their committee work

In a survey of parliamentarians we conducted in early 2002, more than half of the parliamentarians agreed that the recommendations and findings of the Office have had a positive impact on their overall committee work. Concerning the recommendations and findings of the Commissioner of the Environment and Sustainable Development, 42 percent of members of the Committee on Environment and Sustainable Development agreed that the recommendations had a positive impact on their work.

### Parliamentarians agreeing that the Office had a positive impact on their Committee work

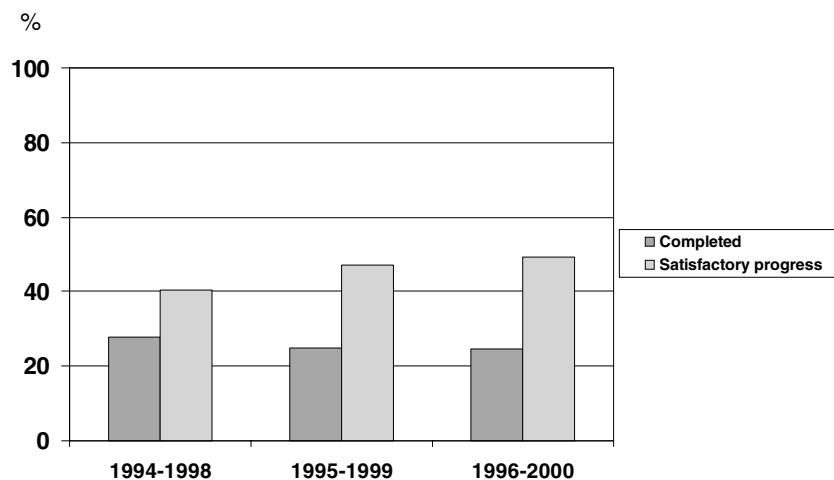


## Highlights of what we do when we audit federal organizations

**According to organizations where we have conducted value-for-money audits, 24 percent of our recommendations are completed and 49 percent are progressing at a satisfactory pace**

Departments have reported to us that recommended action has been taken on one quarter of the recommendations we have made over the past five years and there has been satisfactory progress on half of them. These ratios have been fairly stable in the last three years. For the remaining recommendations, progress has been limited for 21 percent. Six percent were not implemented because of changed circumstances or the organization disagrees with the recommendations. For our recommendations related to the environment and sustainable development, 8 percent were completed and 67 percent were progressing at a satisfactory pace.

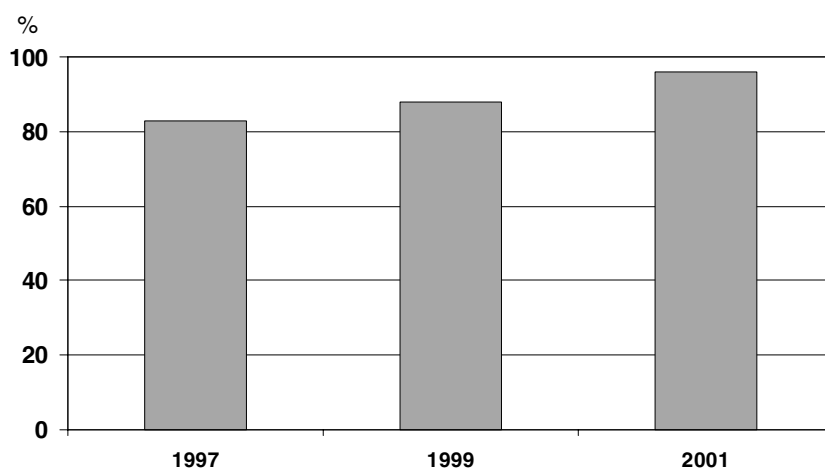
### Recommendations completed



## **Almost all the organizations we audit indicated that they were satisfied with the findings and conclusions of our annual financial audits of Crown corporations**

In our survey of chief financial officers and chairs of audit committees of Crown corporations, an overwhelming majority of respondents, 96 percent, indicated that they were satisfied with our findings and conclusions. As shown in the graph, in previous surveys, the Office also rated high in this respect (83 percent in 1997 and 88 percent in 1999). There is a clear trend toward an increasing level of satisfaction.

**Crown corporations satisfied with the findings and conclusions of our annual financial audits**



### **Other highlights in 2001–02**

- We examined over 100 financial statements including those of the Government of Canada, Crown corporations, other organizations, and territorial governments.
- We produced 10 value-for-money audits covering topics from the Department of National Defence in-service equipment to heating rebates.
- We produced 11 value-for-money audits on the environment and sustainable development covering topics from the Great Lakes to climate change.
- We completed one special examination on the Canadian Museum of Nature and started eight others, including Atomic Energy of Canada Limited, International Development Research Centre, Great Lakes Pilotage Authority, National Capital Commission, Farm Credit Canada, and Atlantic Pilotage Authority.
- At the request of the Governor-in-Council, we conducted a special audit of Export Development Canada's environmental review practices. We published our report in May 2001.



- In February 2002, we presented a special audit report to the Board of Directors of the Canadian Wheat Board. In addition to our audit of the Board's financial accounting and reporting systems our examination included an assessment of the efficiency, effectiveness and economy of selected management systems and practices.
- Internally, we focussed on several challenges including succession planning, audit technology, and methodology improvements.





# SECTION 1

---

## *Message from the Auditor General*



Sheila Fraser  
Auditor General of Canada

Photo by Michael Bedford

I am pleased to submit to Parliament the Performance Report for the Office of the Auditor General of Canada for the period ending 31 March 2002. This report outlines the key results achieved by the Office in the 2001–02 fiscal year.

I am very proud of the Office's many achievements in fulfilling its mandate of serving Parliament and Canadians throughout these 12 months. I share our accomplishments with my distinguished predecessor, Denis Desautels, who ably served as Auditor General from 1 April 1991 to 31 March 2001 and who began many of the Office's ongoing initiatives.

In his last Report on Plans and Priorities, Denis Desautels highlighted a number of important commitments. These included a December 2001 report on a government-wide audit of grants and contributions, an October 2001 report on environmental issues affecting the Great Lakes and St. Lawrence River Basin, the launching of a major project to review our financial audit methodology, and the improvement of our performance measurement and reporting framework.

I am happy to report that we met or made significant progress on these commitments and many more, which are described in some detail within the pages of this report.

As a legislative audit office, we seek better managed federal government programs and greater accountability to Parliament and the Canadian public. We do this by providing Parliament with the information it needs to decide whether or not Canadians are getting value for their tax dollars.

One key measure of how well we are performing is the degree to which our recommendations are implemented by the federal government bodies we audit. Through a database, we track the steps departments and agencies report they have taken to implement our recommendations. For the recommendations issued during the period 1996–2000, for example, our database shows that departments reported having completed the recommended action on a quarter of our recommendations and having made satisfactory progress on half of them.

In 2001–02, we began work on a new Status Report that is devoted entirely to follow-up of previous recommendations and which will be introduced in the fall of 2002. This report will focus on issues that are systemic, timely, relevant, carry the highest risk, and are, in



our view, of continuing interest to parliamentarians. This report will be one of the four reports that I provide annually to the House of Commons.

Another important measure of our performance is how helpful parliamentarians consider our audits to be in holding the government accountable for its use of public funds. To find out how we are perceived by our key clients, we conducted a survey of members of Parliament in 2001–02. Overall, we found a high degree of understanding and support for the role of the Office of the Auditor General, although we need to increase our efforts to inform parliamentarians about the valuable environmental auditing work being done by the Commissioner of the Environment and Sustainable Development, Johanne Gélinas, and her team.

The Office also saw significant results in several other areas. Beginning in December 2001, we embarked on a strategic planning exercise designed to prepare us for change in the years ahead. The result was a plan that paints a picture of what we seek to achieve in the next ten years and how we will work together to achieve it. My goal was to create a shared vision of the future where the commitment and involvement of many individuals will be a driving force for change.

The basis of the strategic plan is a vision and a set of values to guide our work. Our vision is to promote accountable government, an ethical and effective federal public service, good governance, sustainable development, and the protection of Canada's legacy and heritage. We also strive to be widely respected for the quality and impact of our work.

As we go about our work, we uphold certain important values. We are committed to serving the public interest and to maintaining independence, objectivity, excellence, and a respectful workplace. We conduct ourselves with honesty and integrity to promote confidence in our work and we aim to be a model organization within the federal government. These values are backed by a rigorous quality management framework that covers all our product lines, professional standards reviews of our work by provincial institutes of chartered accountants, internal audits, and external reviews.

In our strategic plan, we have also identified critical short-term challenges that relate to how we plan, conduct, and report our work. These include investing in the audit methodology and tools that we employ and providing a better place to work for our greatest asset, our people. Accomplishing these short-term objectives will result in a better alignment of our practices and behaviours with our vision and values, and provide a solid foundation for moving forward.

As part of the strategic plan, we identified five areas to serve as the focus of our audit work during my term: accountability to Parliament, effective public service, Aboriginal issues, the well-being of Canadians, and legacy and heritage issues.

The first two focus areas are fundamental to the very existence of the Office and are long established areas of work. The last three focus on individuals and relate to the government's agenda to improve the well-being of Aboriginal people and contributing to the well-being of Canadians by focussing on government programs that affect their quality of life. The last takes a longer term perspective, and expresses our dedication to contributing to the well-being of future generations of Canadians.



Defining key focus areas will enable us to direct our energies more effectively in planning our work, better integrate our efforts and determine how well we are meeting our goals. In the future, the Office will report on these focus areas to make Parliament and Canadians aware of how well we are progressing in each of them. Our mandate is to serve Parliament, and by doing this well, we also serve the well-being of all Canadians.



Sheila Fraser, FCA  
Auditor General of Canada





## Management Representation

I submit, for tabling in Parliament, the 2001–02 Performance Report for the Office of the Auditor General of Canada.

To the best of my knowledge the information:

- presents fairly the Office's performance;
- is consistent with the disclosure principles contained in the Preparation Guide for Departmental Performance Reports 2002; and
- is based on suitable and sound underlying Office information and management systems.

The quality of data or any limitation regarding their interpretation are disclosed as appropriate within the Report.

In addition, while the information presented is complete and accurate, the Office continues to develop both its financial and non-financial indicators to better tell its performance story.

I am satisfied as to the quality assurance processes and procedures used to prepare the Performance Report.



Michael J. McLaughlin, CMA  
Deputy Auditor General and  
Senior Financial Officer  
16 September 2002



# SECTION 2

---

## *Context*

### **Who we are**

On 31 March 2001, Denis Desautels completed his mandate as Auditor General of Canada. On 1 April 2001, Sheila Fraser, who was already occupying the position of Deputy Auditor General, was asked to act as the interim Auditor General until the 10th Auditor General was named. On 31 May 2001, the Prime Minister of Canada appointed Sheila Fraser as the Auditor General of Canada.

With the appointment of Sheila Fraser, the leadership team of the Office of the Auditor General adjusted its vision and values statements to reflect its orientation for the next ten years.

#### **Our vision**

An independent audit office serving Parliament and the well-being of Canadians, widely respected for the quality and impact of our work.

#### **We promote**

- accountable government,
- an ethical and effective public service,
- good governance,
- sustainable development, and
- the protection of Canada's legacy and heritage.

#### **We do this by**

- conducting independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians;
- working collaboratively with legislative auditors, federal and territorial governments, and professional organizations; and
- providing a respectful workplace in which our diverse workforce can strive for excellence and realize their full career potential.

#### **Our values are:**

- Serving the public interest
- Independence and objectivity
- Commitment to excellence
- Respectful workplace
- Trust and integrity
- Leading by example



The Auditor General is independent of the government of the day, and is appointed for a 10-year period. The Auditor General has the right to ask the government for any information required to do the job as outlined in the *Auditor General Act*. Moreover the Auditor General submits reports directly to the House of Commons, through the Speaker.

The Auditor General also identified five areas that the Office will focus on during her ten-year term. These areas form an integral part of our strategic plan and assist us in planning our audit work. These focus areas reflect our role in providing members of Parliament with objective information to help them examine the government's activities and hold it to account for its stewardship of public funds. They also place special

emphasis on improving the government's financial condition, accountability, and financial management as well as public service renewal and management. They take into account Results for Canadians, the Government of Canada's commitment to modernizing government management in order to respond to Canadians' changing expectations and priorities.

#### ***Exhibit 1—Our focus areas***

<b>Accountability to Parliament</b>	To assist Parliament in its work related to the authorization and oversight of government spending and operations.
<b>Effective public service</b>	To assess whether the key resources of government, its people, technology, and financial resources, work together to achieve results for Canadians.
<b>Aboriginal issues</b>	To contribute to the well-being of Aboriginal people by focussing on the social, economic, and environmental conditions that they face.
<b>Well-being of Canadians: health, safety, security, and the environment</b>	To contribute to the well-being of Canadians by focussing on government programs that affect their quality of life.
<b>Legacy and heritage</b>	To assess whether the financial, physical, human, social, cultural, and natural capital that we have inherited, and that defines us as Canadians, is available for future generations.

The first two focus areas, accountability to Parliament and an effective public service, are fundamental to the existence of the Office and are long established. The last three areas relate directly to individuals and, while we have carried out audits in each area, we are now attempting to take a more focussed, integrated, and coherent approach. All three reflect our responsibilities for the environment and sustainable development.

The 1995 amendments to the *Auditor General Act* established the position of the Commissioner of the Environment and Sustainable Development within the Office of the Auditor General of Canada.

## **What we do**

Parliament and the Canadian public are most familiar with our financial audit of the summary financial statements of the Government of Canada, and periodic reports of the Auditor General to the House of Commons. However, our audit work is more extensive and includes:

- value-for-money audits, including audits on environment and sustainable development;



- financial audits of Crown corporations, territorial governments, and other organizations;
- audit of the summary financial statements of the Government of Canada;
- environment and sustainable development monitoring activities, including the petition process;
- special examinations of Crown corporations; and
- assessments of agency performance reports.

## Who we serve

Our primary responsibility is to Parliament, and our relationship with parliamentarians is key to our effectiveness. We assist Parliament in its work related to the authorization and oversight of government spending and operations.

The Standing Committee on Public Accounts, the Standing Committee on Environment and Sustainable Development, the Senate National Finance Committee, and other parliamentary committees play a crucial role in helping promote accountability, good management practices, and sustainable development. They question senior departmental officials and hold hearings to review our audit findings. Committee hearings are an important means to promote awareness and understanding of the issues covered in our reports. Hearings also help gain departmental and agency commitment to implement our recommendations.

After the hearings, the committees may report and make recommendations to the government. The audited departments and agencies are generally expected to report back on what they have done in response to the recommendations. We monitor the implementation of the committees' recommendations, as well as of our own.

In serving Parliament, we believe that it is important to seek feedback from its members. During 2001–02, we conducted a survey of members of Parliament, including the Standing Committee on Public Accounts and the Standing Committee on Environment and Sustainable Development. We surveyed their understanding of our Office, our credibility, and our performance, and learned about issues they would like the Auditor General to address in the coming years. The survey results provided us with some positive indications of the relevance and usefulness of our work and highlighted areas for improvement. We describe them in the following sections.

In addition, we report to the boards of directors of Crown corporations on the results of our annual financial statement audits and special examinations.



## **We work collaboratively**

### **We work collaboratively with legislative auditors**

We participate actively in the activities of the International Organization of Supreme Audit Institutions (INTOSAI), the professional organization of approximately 180 national audit offices from around the world. In 2001, INTOSAI recognized the Office for its important contributions to public sector auditing.

The Office contributes to INTOSAI by participating on a number of its committees and working groups. These include the Committee on Information Technology Audit, the Public Debt Committee, the Sub-Committee of the Auditing Standards Committee that deals with supreme audit institution independence, and the Environmental Working Group.

Since fall 2001, the Auditor General has chaired the Environmental Working Group. The Group assists audit offices around the world in acquiring a better understanding of the issues involved in environmental auditing by developing guidelines, methodologies, and training programs. We also encourage joint audits and facilitate exchange of information and expertise.

We also chair the Independence Sub-Committee. Our goal is to define more precisely what an independent national audit office should look like and then bring this to the world congress of supreme audit institutions in fall 2004.

The Auditor General also participates each year in an informal global working group in which the Auditors General from G7 countries and other selected countries meet to discuss strategic plans and issues of mutual concern.

We also play an active role in the training of legislative auditors from developing countries. Working with the CCAF-FCVI Inc. (formerly known as the Canadian Comprehensive Auditing Foundation) and with funding from the Canadian International Development Agency, we run an annual nine-month training program for auditors from developing countries. This year we trained four individuals from Bangladesh, Brazil, Nepal, and Tanzania. Two others from Senegal and Tunisia received training in the Quebec Auditor General's office.

We are a member of the Canadian Council of Legislative Auditors, which comprises the ten provincial auditors general or provincial auditors and the federal Auditor General. The Council exists to

- share and exchange information and experience on matters of mutual concern;
- encourage and support development of audit methodology, practices, and professional development; and
- improve the quality and performance of legislative auditing in Canada.



An example of a collaborative initiative with the Council is the joint audit work on health indicators. In September 2000, the First Ministers directed provincial and federal governments to report publicly on certain health indicators. Legislative auditors are providing third-party verification of data presentations.

### **We work collaboratively with federal and territorial governments**

In the three territories, we work with government officials and the management of territorial corporations to identify issues of mutual concern, improve systems and processes, and promote improved public accountability.

We work collaboratively with federal government departments and agencies on a wide range of issues and initiatives to improve accountability and public sector management. For example, over the past year we collaborated with the Treasury Board of Canada Secretariat on its financial information strategy. We have also worked with the Secretariat on internal audit policies, and we participate on an ongoing basis with the internal audit community in general.

For the past year, the Office has been collaborating with the Secretariat to develop a Managing for Results Transition Model that departments can use to assess their progress toward results-based management. This is intended to help departments identify strengths and weaknesses in managing for results and assist them in developing action plans for improvement. The model is being developed with the help of a departmental advisory committee and a number of individuals in several departments. The model is being piloted in several departments during the summer and fall of 2002 and joint publication is planned for 2002–03.

#### ***Exhibit 2 – Lessons Learned***

In January of 2002, the Canada Customs and Revenue Agency advised our Office that they had discovered an error in the financial recording of T3 returns of mutual fund trusts.

The problem appears to have originated in the design of the T3 Trust Tax Return and may go back as far back as 1972. The provincial share of gross income taxes pertaining to mutual fund trusts was properly allocated to provinces; however, as a result of the error, the related provincial share of the capital gains refunds were not properly distributed. This had no direct effect on individual taxpayers, but affected the allocation of assessed income taxes between the federal and provincial governments. This resulted in higher payments to the provinces by the Government of Canada.

Several factors contributed to this problem. First, the error in the Agency's recording processes occurred; second, controls and reviews by the Agency and the Department of Finance did not reveal the problem; and third, our audit work did not detect the error. Since an audit cannot look at every transaction, a process of selection must take place. Our recent audit work focussed on changes in systems and accounts. To the best of our knowledge, neither this account nor the T3 form had changed since our audits began in the mid-1980s.

We expect that each of the federal organizations involved will treat this as a lesson on financial accounting control and reporting and the collection of taxes on behalf of provinces, territories, and others. For our part, we intend to add some of the specified audit procedures we have subsequently designed and completed as part of our T3 work to our ongoing financial audit work. We will also continue to work closely with the provincial auditors in ensuring the audit needs of the provinces are fully considered.

### **We work collaboratively with professional organizations**

A number of our employees are involved with national and international standards setting bodies, and other professional organizations that are engaged in the advancement of legislative auditing. In addition, the Auditor General is a member of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, which develops public sector accounting standards. Other Office members participate on various Institute



committees such as the Assurance Standards Board and the Assurance Services Development Board. We also have employees participating on standard-setting bodies dealing with environmental management, auditing and performance evaluation. Internationally, one of our employees sits on the Public Sector Committee of the International Federation of Accountants, which sets standards for public sector accounting and reporting.

Our employees also participate actively in many more professional organizations, contributing to the improvement of legislative auditing, such as the Canadian Evaluation Society, CCAF-FCVI Inc., the Financial Management Institute, and the Institute of Internal Auditors. We are also involved with a number of international bodies, including the Panel of External Auditors of the United Nations.

## **How we assess the quality of our work**

The quality of our work is of utmost importance to us. As a legislative audit office, we maintain our credibility by adhering strictly to professional auditing standards and best practices. Our Professional Practices Group conducts reviews of our audit operations, internal management, and administration activities to ensure that we conform to standards and policies and to identify areas for improvement.

An audit committee plays an oversight role on key aspects of quality and internal control, and approves plans for internal audits and reviews. The committee is made up of senior office employees and is chaired by an external member from the private sector.

The audit committee met four times during 2001–02. It reviewed and suggested improvements to the Office’s financial statements and recommended their approval to the Auditor General. The committee examined and provided advice on the Office’s draft Report on Plans and Priorities and its draft Performance Report. The committee also reviewed the findings from several practice reviews and internal audits.

## **The quality of our audit work**

### **Internal practice review**

We have implemented a quality management framework that covers all of our audit product lines, including financial audits, value-for-money audits, and special examinations.

The reviews of financial audits focus mainly on the effective application of the quality management framework, ensuring compliance with legislative requirements, professional standards, and Office policies. In 2001–02, the Professional Practices Group reviewed four financial audits and reported no significant shortcomings. They identified a number of areas for improvement: auditing capital assets and authorities, placing reliance on internal audit, integration with special examination work, audit documentation, and timely consultation with specialists.



In its review of six value-for-money audits reported in 2000, the Professional Practices Group found no significant deficiencies. These reviews focussed on compliance with our value-for-money audit policies, and the effective implementation of our quality management framework. The review identified strong practices in such areas as external consultation and professional development. However, it also noted opportunities for improvement, such as acquiring more appropriate resources to perform audits, consulting more effectively with internal subject matter specialists, and strengthening documentation supporting audit findings and conclusions.

### **Professional standards reviews**

The provincial institutes of Chartered Accountants periodically perform professional standards reviews of the Office's annual financial auditing practice. These reviews are part of the requirements for certification relating to training chartered accounting students. Each of our five regional offices and our Ottawa office, are subject to professional standards reviews every three to five years depending on the individual provincial institute's requirements. Each of the offices has been reviewed in the last three years and the reviews found the requirements for certification were being met and that professional auditing standards were being followed in all cases.

### **External review**

We are committed to a regular and ongoing external assessment of our audit quality management framework to ensure its continuing appropriateness and effectiveness.

In 1999, an external audit of our quality management framework for the financial audit practice provided assurance that we had conducted financial audits in accordance with legislative requirements, professional standards, and Office policies. The results of this review, which was conducted by a public accounting firm, were reported to Parliament in our 1999–2000 Performance Report.

We are now planning for an external review of the quality management framework as it applies to our value-for-money audits, and we expect this review will be completed in 2004.

## **The quality of our business processes**

### **Internal audit**

The Professional Practices Group has completed its review of the Office's professional services contracting function as part of a multi-year plan to review all significant management and administrative activities. Its objective was to assess whether the contracting function was being managed in accordance with the Office's policy on contracting services.

The reviewers concluded that the contracting function is processing professional services contracts in a complete and efficient manner, and in accordance with Office policy.





## Strategies to manage key risks

Although it is difficult to foresee all of the Office's challenges and opportunities over the long term, we can identify some significant external and internal business risks. We will describe the impact of these risks on our work plans, in greater detail, in our 2003–04 Report on Plans and Priorities.

### *Exhibit 3—External and internal business risks, impact on work, and strategies*

<i>Risks</i>	<i>Impacts</i>	<i>Strategies</i>
<b>External Business Risks</b>		
<b>Erosion of parliamentary control</b> – The government is creating organizations with new governance arrangements and accountability structures that may limit the nature and extent of parliamentary control.	Large sums of money are moving into organizations not audited by legislative auditors, such as the Foundation for Innovation, the Millennium Scholarship Foundation, and airports.	We will continue to make our views on the risk of decreased accountability for public funds known to Parliament and government officials.
<b>Decentralization of government accounting</b> – The government's introduction of its financial information strategy, including full-accrual accounting on a decentralized basis, has created enormous implementation challenges for departments and agencies.	The audit effort required to assess the implementation of the strategy has increased significantly. In addition, we may be called upon to audit the financial statements of individual departments.	We have studied the impact of auditing departmental financial statements and have acquired new methodology and tools to audit more effectively.
<b>Technology change</b> – Technology changes in the environment in which we audit are rapid and ongoing. The government is committed to improving program delivery by means of the Internet, such as Government Online. As well, departmental management systems are increasingly sophisticated.	These changes are affecting how and in what form we acquire data and information from departments and agencies, as well as the technology and tools we use to audit them efficiently and effectively.	We have acquired and are implementing new technology and electronic tools to increase information and knowledge sharing and to make our work more efficient and effective.
<b>Changing expectations and priorities of Canadians</b> – Canadians' expectations of the federal government are constantly changing. Demographics, increasing pressures of globalization, environmental issues, ethics and values are affecting Canadians' expectations for their governments.	The federal government consults with Canadians on their expectations and priorities, and responds with efficient and effective programs to meet these needs.	In addition to assessing the efficiency of systems and procedures, we want to provide parliamentarians with information on program results. To assist us in planning and reporting our audit work the Auditor General has identified five focus areas.
<b>Internal Business Risks</b>		
<b>Recruitment and retention</b> – We must be able to attract and retain highly skilled auditors. There is increased competition for employees with the knowledge and skills we require to fulfill our mandate.	Without the required number of well-trained and motivated employees, we will be unable to deliver the expected number of high quality audit products. The high market demand can also result in higher employee turnover.	We are aggressively marketing the advantages of working with our organization. We are focussing more attention on training and development and work-life balance in an effort to retain employees. We have also implemented a comprehensive succession management and leadership development program.



**Exhibit 3—External and internal business risks, impact on work, and strategies (continued)**

<b>Risks</b>	<b>Impacts</b>	<b>Strategies</b>
<b>Quality of our work</b> – If Parliament and Canadians do not respect and trust the quality of our work, then we cannot maintain our credibility and impact.	Any decrease in the credibility of our work and the respect in which the Office is held affects our ability to recruit and retain employees, secure necessary levels of funding and, most importantly, provide parliamentarians with valued information and advice.	We are constantly striving to improve the quality of our work. We are implementing new audit methodology, technology, tools and training to respond to the changing needs of the audit profession. We are planning for an external review of our value-for-money audit practice to provide independent assurance that our policies and practices result in audits of a consistent high quality.
<b>Appropriate funding</b> – To maintain our independence, the appropriate level of funding for the Office must be determined in an objective manner that is not influenced by those we audit.	The existing process for arriving at our funding level is not sufficiently independent and impartial to ensure that our budget is appropriate for meeting Parliament's expectations.	We are discussing alternative funding mechanisms with the Treasury Board Secretariat.

## Our people and workplace

We are committed to providing a respectful workplace in which our diverse workforce strives for excellence and is able to realize their full potential. We employ approximately 560 employees in offices in Ottawa, Vancouver, Winnipeg, Edmonton, Montreal and Halifax. We recruited 17 trainee accountants during 2001–02, who are studying to become accountants with the designation of Chartered Accountant, Certified General Accountant, or Certified Management Accountant. We also recruited four recent graduates with graduate degrees seeking experience in value-for-money auditing. We employ experienced people with post-graduate degrees from a wide range of professional backgrounds and disciplines such as statistics, economics, engineering, law, social and environmental sciences, public administration, human resources, and information technology. We have a curriculum for the professional development of all employees. We supported secondments and executive interchange to encourage employees to further their career development opportunities. To this end, we had 8 secondments within the Office and 46 secondments outside the Office.

Employment equity is an underlying value of our Office. We are committed to ensuring equal opportunity in the workplace for all employees. Exhibit 4 presents our employment equity results.

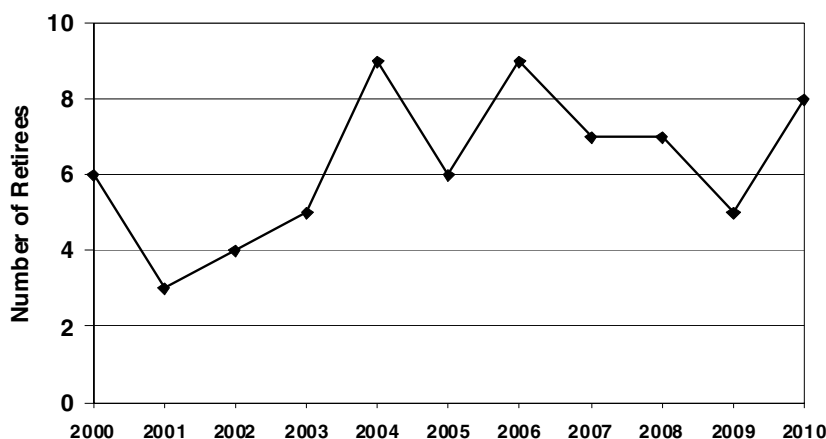


**Exhibit 4—Representation of designated groups at 31 March 2002**

Employment equity designated group	Actual %	Workforce availability % (WFA)	Representation as percent of WFA
Women	52.6	46.4	100.0
Persons with disabilities	2.1	6.3	33.3
Aboriginal peoples	1.6	2.1	76.2
Persons in a visible minority group	6.2	10.3	60.2

The Office views its people as very important to its continued vitality and success. The renewal of our human resources is a challenge for the coming years. We must recruit, train, and retain diverse employees. We are concerned that a significant number of our employees, including our management group, are going to retire in the next several years. From 2003 through 2010, we expect that 56 of our 170 managers will retire.

**Exhibit 5—Number of projected management retirements (currently 170 managers)**



We have a plan in place to prepare our employees to take on greater responsibilities and fill critical positions as senior professionals and managers retire over the next two to seven years. In addition, we have developed a recruitment strategy which includes the use of advertising campaigns and recruitment agencies. We have also implemented an online application system. Furthermore, we are building closer ties with universities to increase our recruitment of trainees and recent graduates.

In preparing our retention plan for next year, we have reviewed some programs and addressed a number of issues identified. For example, we reviewed salaries for audit professionals, our orientation program, and our rewards and recognition program. We have identified key retention issues through focus groups composed of audit professionals, and our audit services group. Exit interviews have also been of assistance.



We offer training activities for our management, professional, and audit services employees. Courses are offered in financial and value-for-money audits, communications, human resources management and orientation. All courses are evaluated by participants and are generally well rated. The total average number of professional development and training days received by employees at all levels is 6.4 days: managers received 7.6 days, audit professionals received 6.7 days, and audit services employees received 4.7 days. These figures are very similar to the previous year.

We have designed and offered a new course to provide audit report authors with plain language writing techniques to make sure their message is delivered effectively. This year, we have also assessed the training needs of our audit services employees. New courses will be piloted in 2002–03.

## **Modernizing our audit methodology and tools**

Our modernization of audit methodology and tools recognized that we need significant changes in our audit planning process, our approach to compliance with governing authorities, and to financial auditing. In 2001–02, we have significantly advanced our methodology in all three areas. We developed a risk-based, integrated methodology to determine audit priorities, piloted it with a number of organizations, and updated it based on what we learned. We also updated our financial auditing methodology to encourage greater reliance on internal controls that address high-level business risks. A major integrating factor was the acquisition of new technology to automate, integrate, and standardize these activities. Training for all employees and implementation of the methodology will begin in fall 2002. We expect these changes will help us deliver better and more efficient audits.

Special examinations of Crown corporations are submitted to their board of directors every five years. Following our audit of governance in Crown corporations (chapter 18, 2000), we have prepared a guide to examine the role and performance of boards of directors as part of the scope of the special examinations.

We continue to invest in knowledge management, using modern technologies to capture and share knowledge more effectively across audit teams and audit services. A Knowledge Management Group has been established, combining the knowledge centre, library and records, with a project team to help implement knowledge-based initiatives. We are continuing to make progress in the following areas

- knowledge about how to do the work, including continued support of methodology, audit tools, and techniques such as the Advancing Audit Practices Project;
- knowledge about the organization, including an organizational database, research resources, and expanded knowledge of the organization delivered through the Intranet; and
- knowledge about current developments, including media monitoring, and other library services.



## Our sustainable development strategy

*Exhibit 6—Sustainable development management performance measures*

Performance measures	1999–2000 Actual	2000–01 Actual	2001–02 Target <sup>1</sup>	2001–02 Actual
<b>Our Audit Work</b>				
Percentage of value-for-money audits and percentage of special examinations that integrated environment and sustainable development issues	36%	27%	30%	52%
<b>Other work related to our mandate</b>				
Number of petitions coordinated by the Commissioner per year	2	5	no target <sup>3</sup>	28
<b>Our day-to-day activities</b>				
Total consumption of paper per employee per year (pages) <sup>2</sup>	8,842	8,723	8,549 <sup>4</sup>	8,728
Dollar value of consumable supplies (excludes furniture and equipment) per employee	-	-	Establish baseline	\$394.51
<b>Our human resources activities</b>				
Number of learning events held that relate to environment and sustainable development awareness and training	-	7 sessions	7 per year	5 sessions
Ability of Office employees to recognize sustainable development related audit issues	-	-	Establish baseline	96% <sup>5</sup>

(1) Target calculated from December 2000 (revised) Sustainable Development Strategy or past reports on plans and priorities.

(2) Based on a three-year rolling average.

(3) Just tracking the number of petitions.

(4) Target is a two percent reduction from previous year's actual.

(5) Based on results of bi-annual Envirosurvey (23 percent to a significant extent and 73 percent to some extent).

### Our audit work

The percentage of value-for-money audits and special examinations that integrated environment and sustainable development issues rose from 27 percent to 52 percent. This increase should be viewed cautiously, as the number of audits that integrated environment and sustainable development issues remained the same. The reason for the percentage increase is that the total number of audits published fell from 44 to 22 during 2001–02. During this same period, we conducted one special examination that did not include environmental issues. There was no comparative measure for special examinations in the prior year.



We are in the process of amending our value-for-money audit methodology, which will require audit teams to consider whether environmental or sustainable development issues are important to the subject being examined.

### **Other work related to our mandate**

The Commissioner of the Environment and Sustainable Development is responsible for handling environmental petitions on the behalf of the Auditor General of Canada. The environmental petitions process provides a formal means for Canadians to bring their concerns about environmental issues to the attention of federal ministers and departments and obtain a response. The Commissioner co-ordinates the process, monitors responses, and makes sure that the questions Canadians raise are addressed by federal ministers and their departments. For the year ending 31 March 2002, the Commission received 28 petitions. Excluding the pending petitions, 72 percent of the departmental responses were made within the prescribed timeframe.

### **Our day-to-day activities**

While the two performance measures referred to in Exhibit 6 are important to how we conduct our business, they have less potential for impact on sustainable development than our audit activities. Consequently, we will continue to monitor our performance and take corrective action when required.

### **Our human resources activities**

We conduct an Envirosurvey every two years to obtain the feedback of our employees and measure their views. In 2001, we added the following question to the survey: “To what extent do you believe you are able to recognize environment-related audit issues?” Ninety-six percent of respondents felt that they would be able to recognize environment-related audit issues to some or a significant extent. For more information on the Envirosurvey, see item 1 in Section 5—Our Methodology.

In 2001–02, we started work on developing a practice guide for auditors that will help them when considering and auditing environmental issues. This guide is expected to be completed in 2002–03.

### **Renewal of our office space**

Working with Public Works and Government Services Canada, we are renewing the office space for employees of our Ottawa office. The cost for the acquisition of furniture and other equipment paid by the Office is estimated at \$3.5 million and the Treasury Board has provided \$3 million of this amount in special funding. In January 2002, construction began on two of the four floors we occupy at the C.D. Howe Building.





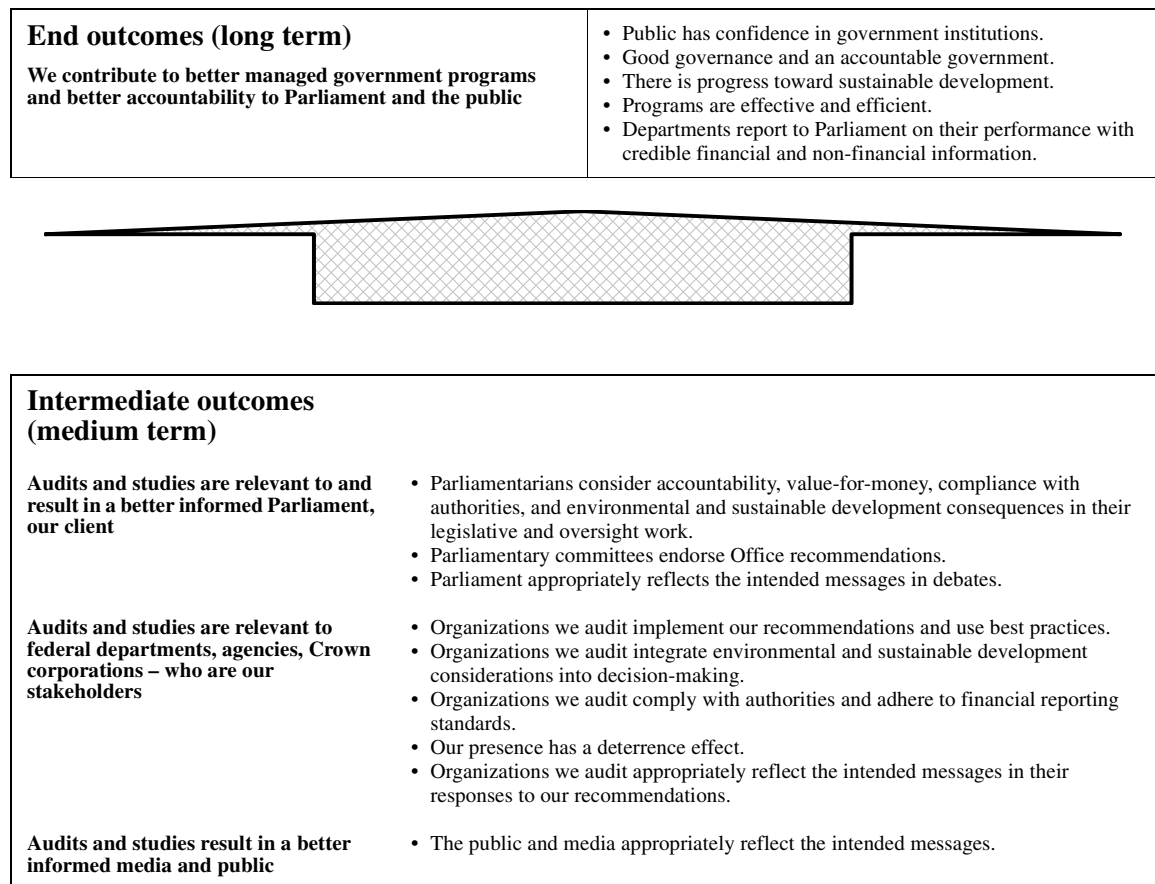
# SECTION 3

## Performance

### Performance measurement and reporting framework

Our achievements include our strategic outcomes. The Office uses a results chain to describe these and to show the difference we make for Canadians (see Exhibit 7). The results chain links our outputs of audits, opinions, information, and advice to our strategic outcomes of better managed government programs and improved accountability to Parliament and the public. It also describes the various stakeholders and their contributions to improving government operations.

*Exhibit 7—Results chain*





**Exhibit 7—Results chain (continued)**

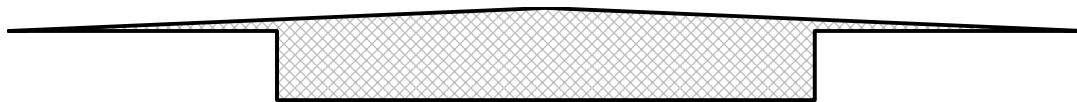
**Immediate outcomes (short term)**

**Support for our role and its work is maintained.**

- Clients and stakeholders perceive information and audit process as useful.
- Organizations we audit accept findings and recommendations.
- Financial and value-for-money audits result in increased confidence in information and systems by senior management, boards of directors, and parliamentarians.

**Clients and stakeholders are engaged in the audit process.**

- Unintended impacts are minimized.
- Parliamentary committees engage in hearings or briefings on issues reported.
- Management, audit committees and boards of directors engage in understanding audit reports and follow up on issues reported.



**Outputs (what we deliver)**

- Audits, opinions, information, and advice produced in accordance with professional standards and quality management framework.
- Human and financial resources are managed wisely.

10  
Value-for-money audits

over 100  
Financial audits of Crown corporations, territorial governments and other organizations

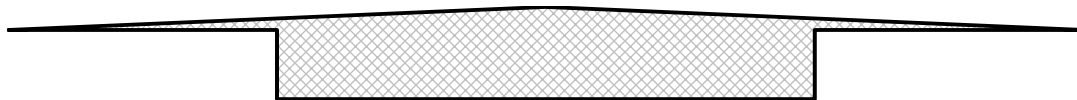
Financial audit of the Summary Financial Statements of the Government of Canada

11  
Audits of environment and sustainable development activities

1  
Special examination of Crown corporations

3  
Assessments of agency performance reports

41  
Parliamentary hearings and briefings



**Activities (what we do)**

Conduct Value-for-money audits

Conduct financial audits of Crown corporations, territorial governments and other organizations

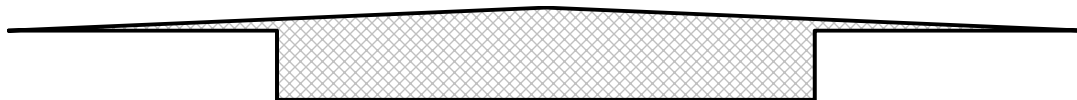
Conduct financial audit of the Summary Financial Statements of the Government of Canada

Monitor environment and sustainable development activities

Conduct special examinations of Crown corporations

Conduct assessments of agency performance reports

Professional practice



**Inputs (our resources)**

\$36.2 M

\$15.2 M

\$4.6 M

\$2.4 M

\$2.3 M

\$1.0 M

\$6.2 M

total cost of operations \$ 67.9 Million (including 519 full-time equivalent employees)



In the following sections, we present results for a number of the strategic outcomes outlined in the results chain. These results are broken down into what the Office does for Parliament and the organizations we audit.

## What do we do for Parliament?

Parliament is the primary client of the Office. We assist and support Parliament with its work of authorizing and overseeing government spending and operations. We pursue work in the areas of financial and performance reporting, accountability, and compliance with governing authorities. As well, we work closely with parliamentary committees to assist them in carrying out their work.

As is shown in the results chains, the nature and quality of the services that we provide are contributing to ensure that, in the short-term

- parliamentary committees are engaged in hearings or briefings on issues reported,
- parliamentarians have an increased confidence in information and systems, and
- parliamentarians perceive the information and the audit process as useful.

We also work to ensure that, in the medium-term

- parliamentarians consider accountability, value-for-money, compliance with authorities, and environmental and sustainable development consequences in their legislative and oversight work; and
- parliamentary committees endorse our recommendations.

## How well did we perform for Parliament?

### Engaging Parliament

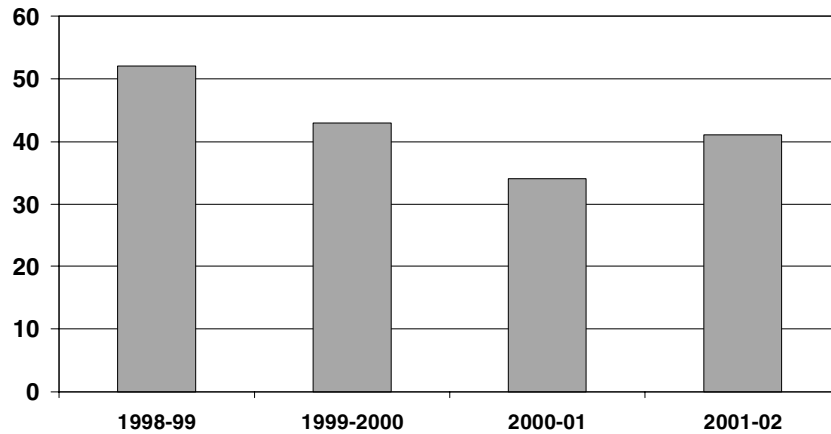
**Immediate outcome:** *Parliamentary committees engage in hearings or briefings on issues reported.*

**Results:** We participated in 41 parliamentary committee hearings and briefings.

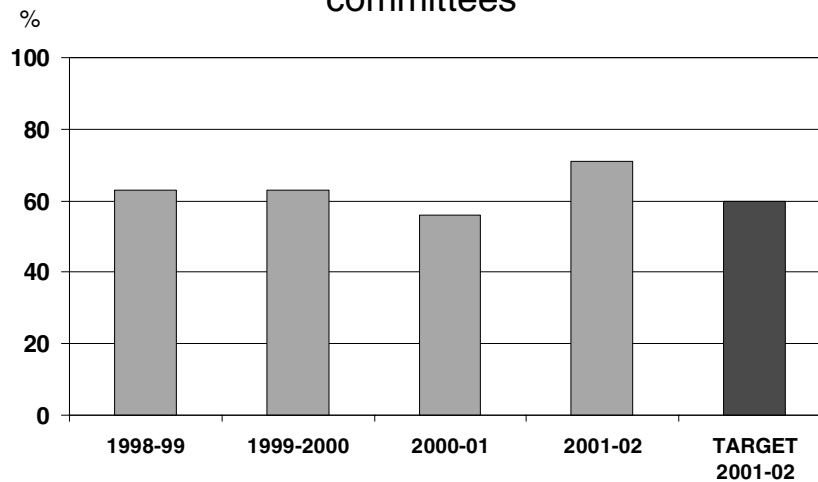
Parliamentary committees have reviewed 71 percent of our value-for-money audits.



### Number of hearings and briefings in which the Office participated



### Value-for-money audits reviewed by parliamentary committees



Parliamentary hearings indicate that parliamentarians are interested in seeking resolution of the issues reported. The Office participated in 41 hearings and briefings in 2001–02, which is up from 34 in 2000–01. Three audits by the Commissioner of the Environment and Sustainable Development resulted in hearings. Seven of the hearings also focussed on environmental issues. Some hearings also focussed on our audit of the Public Accounts of Canada.

We expected that about 60 percent of our 2001–02 value-for-money audits would be the subject of parliamentary committee hearings. Committees held hearings on 71 percent. The hearings covered such topics as recruitment for Canada's future public service, the government-wide management of grants and contributions, the international tax administration, the maintenance of military equipment, the sustainable development



management systems, and the environmental health of the Great Lakes and St. Lawrence River Basin.

Our performance of 71 percent in 2001–02 appears to be an improvement when compared with our previous year’s performance of 56 percent. For more information on these indicators, see item 2 in Section 5—Methodological Endnotes.

### Impact on Parliament’s confidence

**Immediate outcome:** *Financial and value-for-money audits result in increased confidence in information and systems by senior management, boards of directors, and parliamentarians.*

**Result:** 67 percent of parliamentarians consider that the Office’s regular examination of the Public Accounts of Canada and financial statements increases the public’s confidence in the government’s finances.

**Source:** *Survey by the Office of members of Parliament and Standing Committees on Public Accounts and on Environment and Sustainable Development, 2002*

We conducted an extensive survey of parliamentarians to find out how one of the Office’s key clients perceives and gauges our performance. Generally, there were no significant differences between responses from Government and Opposition Members. A number of performance indicators used in this section were extracted from this survey.

One of our immediate outcomes is to ensure that parliamentarians have an increased confidence in information and systems. In our survey, we asked parliamentarians if they consider that the Office’s regular examination of the Public Accounts, or financial statements, increases the public’s confidence in the government’s finances. Two parliamentarians out of three agreed that it did. For more information on our survey of parliamentarians, see item 3 in Section 5—Methodological Endnotes.

### Usefulness to Parliament

**Immediate outcome:** *Clients and stakeholders perceive the information and the audit process as useful.*

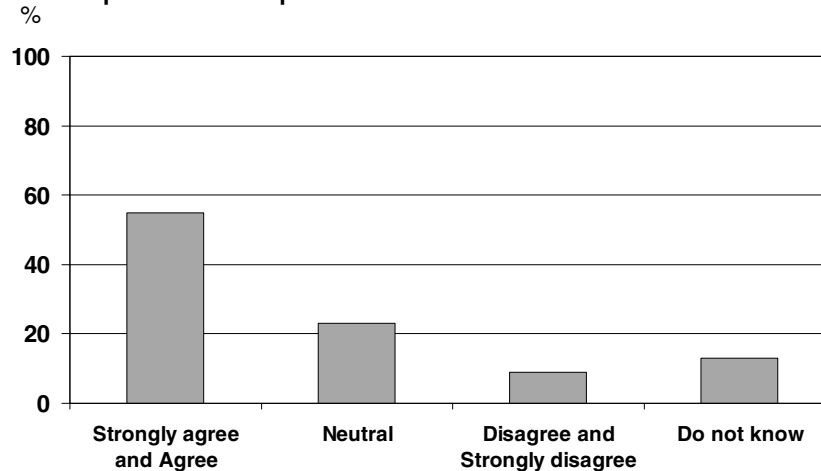
**Results:** 55 percent of parliamentarians consider that the recommendations and findings of the Office have had a positive impact on their specific committee work.

42 percent of members of the Committee on Environment and Sustainable Development consider that the specific recommendations and findings of the Commissioner of the Environment and Sustainable Development have had a positive impact on their work.

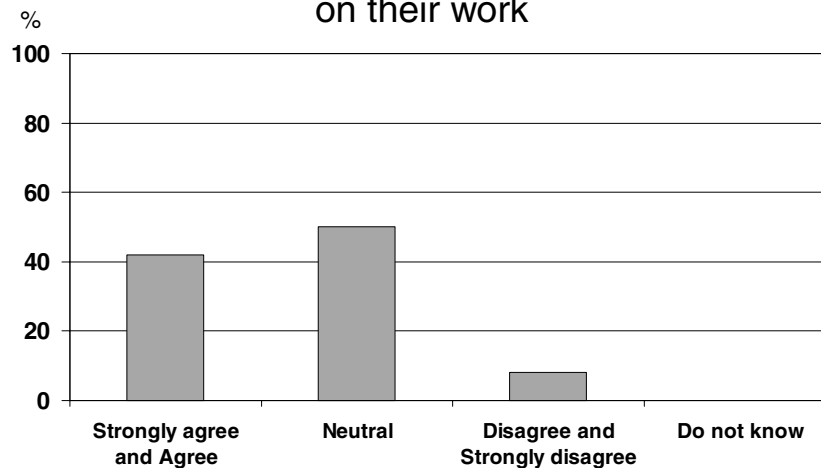
**Source:** *Survey by the Office of members of Parliament and Standing Committees on Public Accounts and on Environment and Sustainable Development, 2002*



### Parliamentarians agreeing that the Office had a positive impact on their committee work



### Members of the Committee on the Environment and Sustainable Development agreeing that findings of the Commissioner had a positive impact on their work



About half of the parliamentarians in our survey agreed that the recommendations and findings of the Office have had a positive impact on their overall committee work. However, when the members of the Standing Committee on Public Accounts, whose role is to focus on our reports, were asked the same question, 69 percent indicated that they agreed. It is also interesting to note that 94 percent of the members of the Committee on Public Accounts and 74 percent of parliamentarians agreed that the Auditor General's appearance at Committee meetings is helpful to Committee members.

*I just find the reports are thoughtful, comprehensive, clear, careful and independent.*

Respondent to the Office's Survey of members of Parliament.



To the same question about the positive impact on their work of the recommendations and findings of the Commissioner of the Environment and Sustainable Development, 42 percent of members of the Committee on Environment and Sustainable Development agreed, 50 percent were neutral and 8 percent disagreed.

### Impact on legislative work

**Intermediate outcome:** *Parliamentarians consider accountability, value-for-money, compliance with authorities, and environmental and sustainable development consequences in their legislative and oversight work.*

**Results:** All of the members of the Standing Committee on Public Accounts indicated that the Office added value to their decisions as Committee members.

Three quarters of the members of the Standing Committee on Environment and Sustainable Development indicated that the information provided by the Commissioner added value to their decisions as Committee members.

**Source:** *Survey by the Office of members of Parliament and the standing committees on Public Accounts and on Environment and Sustainable Development, 2002*

The work of our Office has a direct impact on the volume and the issues addressed by the Standing Committee on Public Accounts. The results of our survey of parliamentarians demonstrated a very high level of endorsement of our work. The members of the Standing Committee on Environment and Sustainable Development also agreed that the Office added value to their decisions.

*When I was the chair (of the Standing Committee on Foreign Affairs and International Trade), the Auditor General expressed an interest or willingness to sit down with the committee and go through some programs, and work on it. So I would recommend that maybe this would be a positive approach.*

Honourable Bill Graham, Minister of Foreign Affairs (37th Parliament, 1st session, Standing Committee on Foreign Affairs and International Trade, 30 May 2002)

There were other positive results raised in our survey.

Two out of three parliamentarians surveyed indicated that they had used our reports as source material for speeches, press releases or letters to ministers and constituents. They also used them as background for House of Commons debates, Question Period and to assist in answering questions from constituents.

The members of the Standing Committee on Environment and Sustainable Development also clearly conveyed that they thought that the work of the Commissioner of the Environment and Sustainable Development was relevant to them.

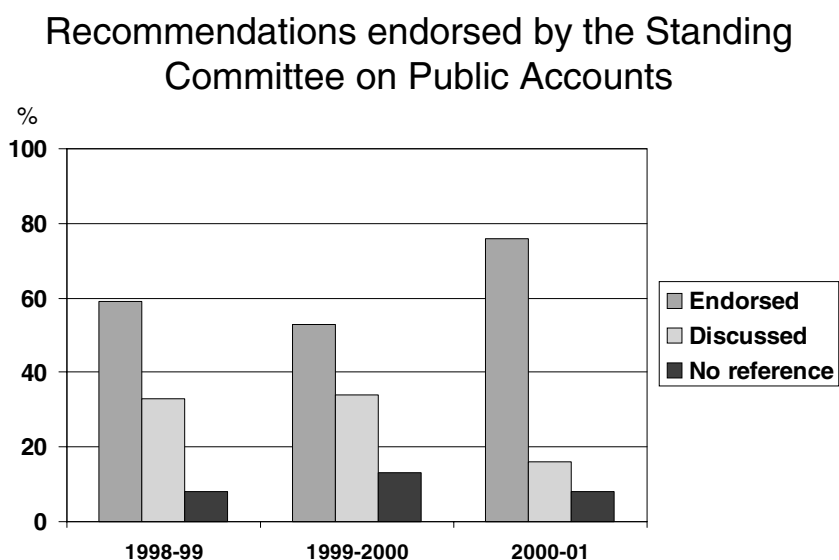


## Endorsement of our recommendations by Parliament

**Intermediate Outcome:** *Parliamentary committees endorse Office recommendations.*

**Result:** The Standing Committee on Public Accounts explicitly endorsed 76 percent of our value-for-money audit recommendations that it had reviewed in its reports to the House in 2000–01.

*Exhibit 10—Endorsement of our recommendations by Parliament*



The endorsement of our recommendations by the Standing Committee on Public Accounts is another indicator of the quality of our work. In order to determine the level of endorsement of our value-for-money audits, we calculate the percentage of audit recommendations reviewed by the Standing Committee on Public Accounts and endorsed in its reports to the House of Commons. In 2000–01, our performance was 76 percent. For more information on these indicators, see item 4 in Section 5—Methodological Endnotes.

The Committee also asks departments to submit action plans and progress reports on implementing recommendations contained in our value-for-money audits. We believe that this also represents a strong indication of endorsement.



## Helping Parliament

### *Exhibit 11 – Helping Parliament understand complex issues*

#### **First Nations' health (chapter 16, 2000)**

Our follow-up work on First Nations' health programs raised some concerns as to whether these programs can assist First Nations' communities in attaining a level of health comparable to that of other Canadians. The issues of responsibility, accountability, capacity, and control over prescription drugs were all raised in a first hearing with the Standing Committee on Public Accounts. Two other hearings were held to discuss our follow-up audit on First Nations' health and to hear from witnesses outside government. These included a woman, whose son and brother died within three weeks of each other from prescription drug overdoses. The Committee members were very concerned with the government's lack of progress in dealing with First Nations' health problems. Therefore, they recommended that Health Canada inform Parliament through its annual performance report of the progress made in implementing each recommendation of the Auditor General's Report.

#### **Governance of Crown corporations (chapter 18, 2000)**

Crown corporations are owned by the federal government and are administered under the *Financial Administration Act*. They have a greater autonomy than most other governmental organizations. In our audit of corporate governance we identified a number of key areas that could be strengthened and discussed them in a hearing with the Standing Committee on Public Accounts. These areas included appointing boards of directors, board chairs, and chief executives; audit committee practices; review and approval of corporate plans as well as review of Crown corporations' mandates. The Committee's report supported the need for improved governance practices in these areas. It also emphasized and gave direction to the oversight function that must be played by departments, the Treasury Board Secretariat, and the Privy Council Office for Crown corporations.

#### **Regulatory programs (chapter 24-28, 2000)**

The December 2000 Report included a series of audits that focused on health and safety protection. Many hearings were held on this topic, resulting in reinforcing the need for parliamentarians to periodically examine how health and safety programs across the board are responding to challenges. The Standing Committee on Public Accounts held three hearings on three audits of Regulatory Programs (Food Inspection Program, Regulatory Regime of Biologic and Power Reactor Regulation). The Standing Committee on Agriculture and Agri-Food held its own meeting on food inspection. The Office also appeared on two occasions before the Standing Committee on Health. This Committee was studying the draft legislation on assisted human reproduction and needed clarification on how this area could be regulated and how parliamentary oversight could be exercised.

#### **Great Lakes and St. Lawrence River Basin**

The first chapter of the 2001 Report of the Commissioner of the Environment and Sustainable Development focusses on the federal government's management of environmental issues in the Great Lakes and St. Lawrence River basin. There are five main subject areas: water, agriculture, species and spaces at risk, fisheries, and institutional governance. We found that there is no co-ordinated, consistent federal voice on key issues in these areas. The chapter received quick responses from parliamentary committees. The Standing Committee on Agriculture and Agri-Food and the Senate Fisheries Committee held hearings to discuss the agriculture and fishery components of the audit. It allowed the Commissioner to discuss with parliamentarians the many threats to the future of the Great Lakes and the St. Lawrence River basin.

#### **Recruitment for Canada's future public service (chapter 2, 2001)**

The Standing Committee on Public Accounts is concerned about the government's capacity to rise to the challenges involved in renewing the public service. In appearing before the Committee on the critical issue of recruitment, the Office emphasized the need for legislative change. The Committee supported the Office's position that the current human resource systems will require fundamental reform of the legislative and regulatory framework governing the human resource management regime. The Task Force on Modernization of Human Resources Management is expected to complete its review of the framework in order to allow the government to table new legislation by this fall.

## How well did we perform when we audited federal organizations?

As our results chain illustrates, we are aware of the importance of delivering audit reports that contain high quality information and that add value. In order to determine how well we perform, we must ensure that, in the short term

- management, audit committees, and boards of directors engage in understanding audit reports and follow-up on issues reported;
- clients and stakeholders perceive information and the audit process as useful; and
- organizations we audit accept our findings and recommendations.





In the medium-term, we must also ensure

- organizations that we audit implement our recommendations and use best practices, and
- organizations that we audit integrate environmental and sustainable development into decision-making.

### Engaging organizations we audit

**Immediate outcome:** *Management, audit committees and boards of directors engage in understanding audit reports and follow up on issues reported.*

**Result:** 85 percent of the chief financial officers and chairs of audit committees of Crown corporations<sup>1</sup> indicated that information we provided assisted management and the audit committee in carrying out governance responsibilities.

**Source:** *Survey by the Office of chief financial officers and chairs of audit committees, 2001*

1. Our survey also included federal agencies requiring an annual financial audit (Canadian Food Inspection Agency, Canada Customs and Revenue Agency, and Parks Canada) and international organizations we audited (International Civil Aviation Organization and UNESCO).

Engaging stakeholders and involving them in the audit process is an important aspect of our Office's work. In order to find out how we were doing in this respect, we conducted a survey of our stakeholders. We looked for feedback on the relevance, completeness, and accuracy of our audits and the audit process. So far, we have sought such feedback on our financial audits every two years, and special examinations of Crown corporations at the end of every five-year cycle. We are considering conducting a similar survey for our value-for-money audits. For more information on our survey of chief financial officers and chairs of audit committees, see item 5 in Section 5—Methodological Endnotes.

In our survey of senior management of Crown corporations where we conducted financial audits, we examined the level of stakeholder interest by asking them if they agreed that information provided assisted management and the audit committee with their governance responsibilities. This includes reports, presentations, developments in the profession and good practices. Eight-five percent of the chief financial officers and chairs of audit committees surveyed agreed that the information provided was useful (59 percent agreed and 26 percent agreed strongly). The balance of respondents were either neutral (14 percent) or disagreed (1 percent). A previous survey done in 1999 had similar results.



## Usefulness to organizations we audit

**Immediate outcome:** *Clients and stakeholders perceive the information that we provide to them and our audit process as useful.*

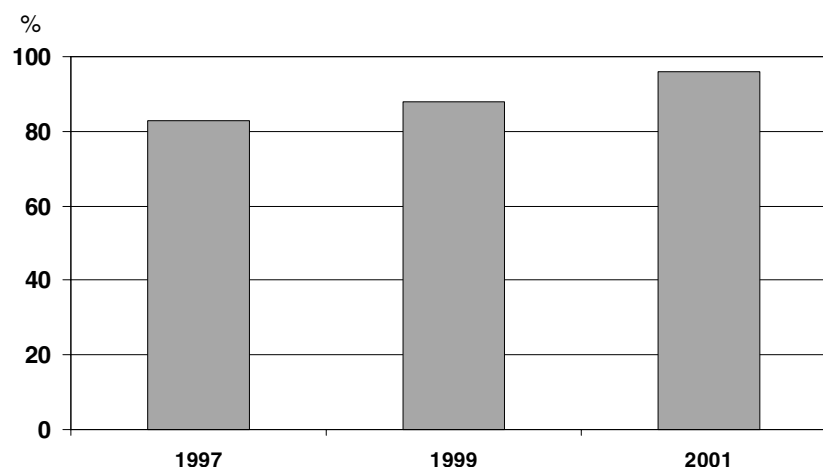
**Results:** 96 percent of chief financial officers and chairs of audit committees of Crown corporations expressed satisfaction with our audit findings and conclusions.

Over 80 percent of the chairs of the board and chief executive officers believed that our special examinations of Crown corporations were worthwhile and added value to their organizations.

**Source:** *Survey by the Office of chief financial officers and chairs of audit committees, 2001, and Survey by the Office of chairs of the board and chief executive officers of Crown corporations, 2002*

**Exhibit 12—Usefulness to organizations we audit**

### Crown corporations satisfied with the findings and conclusions of the annual financial audits



In our survey of chief financial officers and chairs of audit committees of Crown corporations, an overwhelming majority of respondents, 96 percent, indicated that they were satisfied with our findings and conclusions. As shown in Exhibit 12, the Office also rated high in past years (83 percent in 1997 and 88 percent in 1999). There is a clear trend toward an increasing level of satisfaction.

The survey of Crown corporations that were the subject of a special examination by our Office over the last five years showed that over 80 percent of chief executive officers and chairs of boards of directors agree or strongly agree that our audits and information added value for their organization. For more information on our survey of chairs of the board and chief executive officers of Crown corporations, see item 6 in Section 5—Methodological Endnotes.



## Level of acceptance of our recommendations

**Immediate outcome:** *Organizations we audit accept our findings and recommendations.*

**Result:** 64 percent of chief financial officers of Crown corporations expressed their intention of implementing the majority of the opportunities for improvement we identified within the year.

**Source:** *Survey of chief financial officers and chairs of audit committees, 2001*

In our results chain, we seek to get the organizations we audit to accept our recommendations. An indication of this support is shown in the departmental responses to our recommendations when we conduct value-for-money audits and special examinations—the vast majority agree with them. For financial audits, our 2001 survey indicated that two thirds of the chief financial officers expressed their intention of implementing the majority of opportunities for improvement brought to their attention by our audits.

*I think the Office of the Auditor General performs an essential task as an arms-length monitor of government spending and actions. It occupies a crucial function. Can't do without it.*

Respondent to the Office's Survey of members of Parliament.

## How well our recommendations are implemented

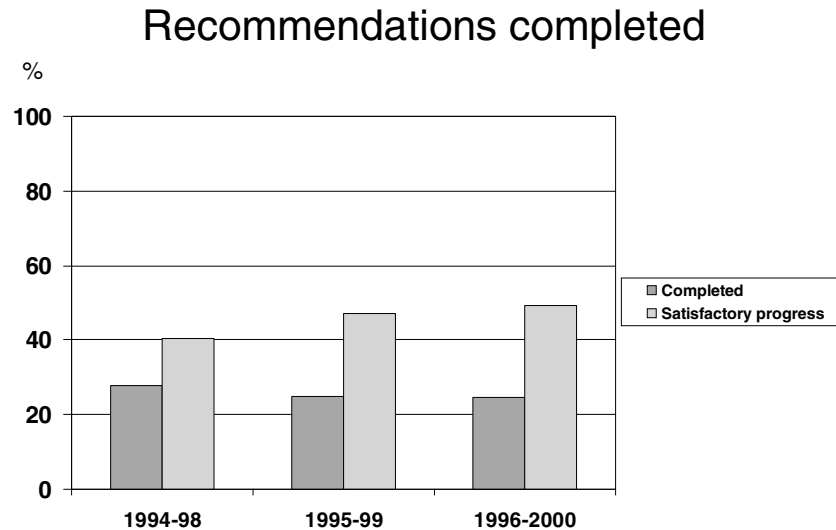
**Intermediate outcome:** *Organizations we audit implement our recommendations and use best practices.*

**Results:** Departments and agencies fully implemented 25 percent of our recommendations while for another 49 percent progress was made at a satisfactory pace.

Departments and agencies fully implemented 8 percent of our recommendations related to the environment while for 67 percent progress was made at a satisfactory pace.

**Source:** *Database of recommendations of the Office of the Auditor General, 2002*





Recommendations are intended to address the underlying causes of problems or weaknesses in internal controls, failures to comply with laws and regulations, or other matters impeding effective and efficient performance. We are committed to improving government operations. We seek to encourage departments and agencies to improve their operations by producing relevant and practical recommendations and monitoring how they implement them.

In the past, including 2001–02, it has been our practice to follow up each previous value-for-money audit two years after the original audit. Based on our review and discussions with parliamentarians, we have concluded that our existing approach could be more effective in terms of its relevance to Parliament.

In future follow-up work, we will focus on a smaller number of issues that are of continuing interest to Parliament. The status report planned for fall 2002 marks the first step toward using this new approach.

The data in Exhibits 13 and 14 are extracted from our database of recommendations. It is largely based on requests about the status of recommendations sent to organizations we audit. The responses are reviewed for plausibility by our audit teams. We have observed that departments have completed the recommended action on a quarter of the recommendations we have made over the past five years and have made satisfactory progress on half of them. For the remaining recommendations, progress has been limited for 21 percent. Six percent were not implemented because of changed circumstances or disagreement with the recommendations. For more information on our database of recommendations, see item 7 in Section 5—Methodological Endnotes.

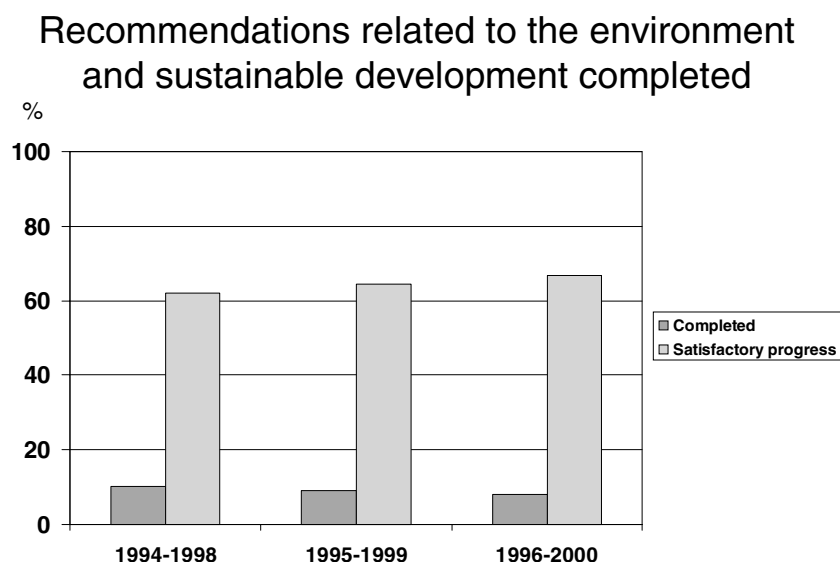
Government departments and agencies are ultimately responsible for taking corrective action and improving management practices. We contribute by bringing weaknesses in



management practices to the attention of Parliament and departmental senior management, and by making sensible recommendations.

The progress that departments make toward implementing our recommendations is important to us and to Parliament. We will continue to collect information on progress annually and work closely with departmental internal auditors.

*Exhibit 14—Level of acceptance of our recommendations*



Departments have completed the recommended action on eight percent of the recommendations we have made on environmental and sustainable development issues. Furthermore, satisfactory progress was achieved on another two thirds of them. As shown in Exhibit 14, these results have been fairly stable over the last three periods.

### **Integration of environmental and sustainable development considerations into decision-making**

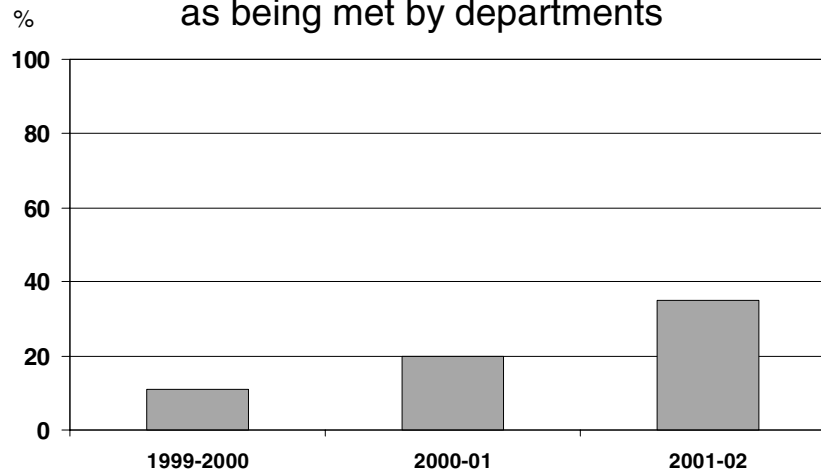
**Intermediate outcome:** *Organizations we audit integrate environmental and sustainable development considerations into decision-making.*

**Result:** Departments and agencies reported having met 35 percent of commitments made in their sustainable development strategies.

**Source:** Chapter 3 of the 2001 Report of the Commissioner of the Environment and Sustainable Development.



Departmental Sustainable Development Strategy  
commitments reported  
as being met by departments



In Chapter 3 of the 2001 Report of the Commissioner of the Environment and Sustainable Development, we stated that departments had reported having met an average of about 35 percent of commitments made in their first sustainable development strategies. As shown in the graph above, this represents some progress from the previous years. However, we did not audit departments' accomplishments to verify the accuracy of the results reported.

### Compliance with authorities

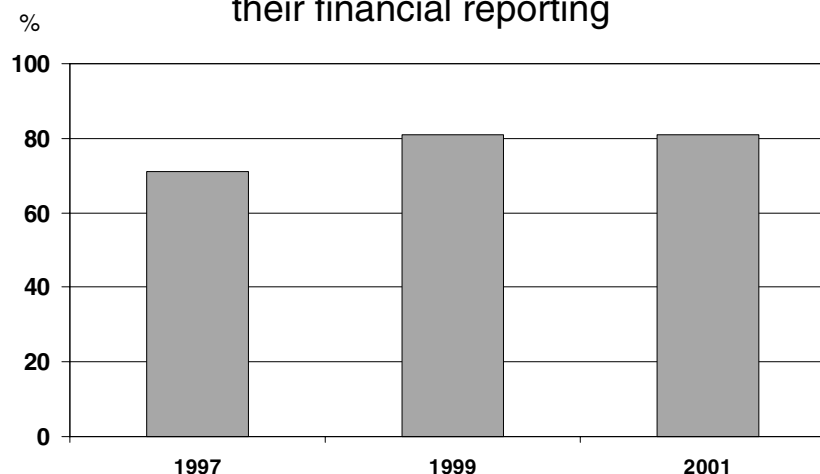
**Intermediate outcome:** *Organizations comply with authorities and adhere to financial reporting standards.*

**Result:** 81 percent of chief financial officials and chairs of audit committees indicated that annual financial audits assisted in improving their organization's financial reporting.

**Source:** Survey by the Office of chairs of the board and chief executive officers of Crown corporations, 2001



**Audited organizations agreeing that annual financial audits assisted in improving the quality of their financial reporting**



In 2001, as shown in Exhibit 16, our Office succeeded in maintaining a high level of agreement among chief financial officers and chairs of audit committees of Crown corporations that we assisted them, through our financial audits, in improving the quality of their financial reporting. This help was provided through the financial statements, and the management discussion and analysis in the annual report.

Another way of assessing our effect on compliance with legislation and due regard is in our survey of Parliament where 70 percent of parliamentarians strongly agreed that without the Office, less attention would be paid to these issues in departments and agencies.

## **How well did we communicate our message to the media and the public?**

Our qualitative analysis of the media coverage indicates that our messages were well understood and reported accurately. In particular, we were pleased to note that our Office is considered a credible and reliable source of information.

In order to ensure that the content of our reports is well communicated, in 2001–02 we undertook a concerted effort to promote the use of plain language in our audit reports. During this period, 66 auditors were trained in the use of plain language skills and 50 also took courses designed to enhance their communication skills. All Office publications are rigorously edited to improve clarity. The positive feedback we have received from the public and the media about the clarity of our reports indicates that we are on the right track.



## **What were our unintended impacts?**

We are always watching for any unintended effects of our work. We try to avoid proposing unnecessary, or excessive, controls or systems so that management in the organizations we audit can focus on priority issues. In some cases, government organizations are undergoing significant changes and resource reductions and implementing our recommendations could require additional resources. Any significant issues we raise can create additional pressures on resources or affect employee morale. As well, reported cases of mismanagement may have a negative effect on public confidence in the government.

Various techniques, such as conducting surveys of senior management, can provide valuable information for identifying and measuring unintended effects. This is not an easy task. We are presently considering doing a post-audit survey of our value-for-money audit clients, to be conducted next year. We will explore ways of using this tool to assess any unintended effects of our reports.

## **How did we compare with other legislative audit offices?**

One way of assessing an organization's performance is to compare it with other similar organizations. In Canada, we have provincial counterparts, the provincial legislative audit offices that provide similar services and products. The Canadian Council of Legislative Auditors, an organization devoted to sharing information and supporting the continued development of public sector auditing methodology, practices, and professional development, has a project under way to define common performance indicators. A working group has been formed that will identify a limited number of key common performance indicators, taking into account the differences in mandates, resources, and context. Once an agreement is reached on the relevant indicators, definitions and the method to calculate them, our Office will monitor our performance against them.







# SECTION 4

---

## *Financial Performance*

### **Parliamentary appropriations used**

In the fiscal year 2001–02, the Office used \$62.5 million of the \$66.2 million in parliamentary appropriations approved. The \$66.2 million is composed of \$55.5 in Main Estimates and a further \$10.7 million in Supplementary Estimates, adjustments, and transfers.

The Office had asked the Treasury Board for \$6.0 million in additional funding for 2001–02, which it received. These additional funds were required to ensure that we continue to have enough resources to carry out our value-for-money audits of departments and agencies, and invest in methodology, technology, and intellectual capital. The remaining \$4.7 million of the \$10.7 million in Supplementary Estimates, adjustments, and transfers were more regular in nature, including carry-forward funding and salary adjustments.

The request for increased funding was not approved until part way through 2001–02, which made it difficult for us to expand our staffing levels in the year. This contributed to a lapse of \$3.7 million in 2001–02. We also lapsed funds due to delays in engaging consultants for the Advancing Audit Practices Project. These delays were caused by the complexity of the procurement of the software tools and consulting services required to support this project.

Like other government departments and agencies, subject to parliamentary approval, the Office can carry forward up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year. The Office has requested that it be allowed to carry forward \$2.4 million to 2002–03.

### **Full-time equivalent employee utilization**

The Office used 519 full-time equivalents (FTEs) in 2001–02, which represented 89 percent of our budget of 580 FTEs. This compares to 2000–01, when we used 514 FTEs, or 99 percent of our budget of 520 FTEs. As noted above, we were not able to increase our employee level in 2001–02 as quickly as we would have liked because our additional funding was only approved part way into the year. Finding experienced financial auditors and information systems audit specialists was also challenging.



As at 31 March 2002, the Office had 563 employees. Secondments, part-time work, and employee turnover explain the difference between the number of employees and the number of FTEs. Historically, the Office's FTE utilization has been about 92 percent of the number of employees of the Office.

## Cost of operations

In the fiscal year 2001–02, the net cost of operations for the Office was \$67 million as reported in our audited financial statements at the end of this Section. This is an increase of \$4.3 million from 2000–01. The largest increases were in the costs incurred for Professional Practice (\$1.8 million), audit of the Summary Financial Statements of the Government of Canada (\$1.0 million), and special examinations of Crown corporations (\$1.1 million).

Also of importance is the comparison of planned spending to actual costs. The preparation of our 2001–02 Report on Plans and Priorities was based on parliamentary appropriations of \$55.5 million. Subsequent to the preparation of the 2001–02 Report on Plans and Priorities, we received parliamentary approval to spend \$66.2 million and later estimated that we would lapse \$2.0 million. We updated our planned spending for 2001–02 based on this new information and presented the revised plan in our 2002–03 Report on Plans and Priorities. The revised plan considered the employee shortages that we were experiencing at the time. Our value-for-money audit plans were adjusted to ensure that we met our statutory audit obligations and we also advanced our plans to invest in our professional practice.

A cost and budget variance analysis by Office activity is presented below. The actual costs are those reported in our audited financial statements.

## Value-for-money audits

Budget	2001–02	\$35.4 million
Actual costs	2001–02	\$36.2 million
Actual costs	2000–01	\$35.7 million
Budget variance - increase		\$0.8 million (or 2 percent)
Cost variance - increase		\$0.5 million (or 1 percent)

The percentage variance between actual costs for 2001–02 and 2000–01 is small as is the variance between planned spending and actual costs for 2001–02. Our costs for value-for-money audits have remained stable over the past two years, despite the decrease in published reports, as we have had salary increases and have continued to work on audits that will be published in future periods. We also increased spending on other aspects of



our value-for-money practice such as investing in knowledge of government departments and agencies. This is important because it helps the Office identify matters for audit that are of most interest and significance to Parliament.

Most of our value-for-money audits take place over two fiscal years requiring us to manage budgets that cross fiscal years. The average cost of the audits published in 2001–02 was \$1.0 million, up from \$0.9 million in 2000–01. We monitor the budget to actual costs as part of our internal management processes. The following is a summary of significant variances for value-for-money audits reported in 2001–02:

- The cost of the six audits on the Great Lakes and St. Lawrence River Basin reported in October 2001 was \$7.2 million compared to a budget of \$5.2 million, representing an increase of 38 percent. These audits were more expensive than was budgeted because the scope of the work was expanded and the time required for coordinating and reporting on the work carried out by the audit teams was more extensive than planned.
- The cost of the Voted Grants and Contributions: Program Management audit, reported in December 2001 was \$3.3 million compared to a budget of \$2.5 million, representing an increase of 32 percent. This budget variance was largely due to an increase in the scope of the work and the use of more senior auditors due to the complexities of the issues encountered during the audit. Also, the sensitivity and seriousness of the findings resulted in more discussions with departments.
- The cost of the Department of National Defence—In-Service Equipment audit reported in December 2001 was \$1.5 million compared to a budget of \$1.2 million, representing a budget increase of 25 percent. We had planned to rely on departmental databases to support our report but were unable to do so and expanded our planned work for gathering sufficient and appropriate audit evidence. This was the main cause of the budget variance.

### Financial audits of Crown corporations and other organizations

	2001–02	2000–01
Budget	\$17.2	
Actual costs		
Crown corporations	\$ 6.3	\$ 6.2
Other corporations and organizations	4.9	4.9
Territorial organizations	3.3	3.8
International organizations	0.7	0.8
Total Crown corporations and other organizations	\$15.2	\$15.7
Budget variance - decrease	\$2.0 million (or 12 percent)	
Cost variance - decrease	\$0.5 million (or 3 percent)	



In 2001–02, we had planned to increase our spending on financial audits of Crown corporations and other organizations because of new audits and planned discretionary audit work related to our financial audits. The main reasons that this did not take place were delays encountered in the commencement of our new financial audit engagements for the government’s pensions plans (Public Service, Royal Canadian Mounted Police and the Canadian Forces pension plans) and the deferral of some of the discretionary audit work. For example, for our financial audit of the Canada Customs and Revenue Agency, we would have liked to have made more progress on auditing internal controls, compliance issues and the determination of opening accrual tax receivable balances. This was not possible because of unexpected audit requirements related to T3 issues pertaining to the misallocation of mutual fund trust capital gain refunds.

There was a relatively small decrease in our cost of our financial audits of Crown corporations and other organizations in 2001–02 compared to 2000–01. The main cost variance relates to our audits of territorial organizations (decrease of \$0.5 million). This favourable variance is due to efficiency gains.

### **Financial audit of the Summary Financial Statements of the Government of Canada**

Budget	2001–02	\$5.4 million
Actual costs	2001–02	\$4.6 million
Actual costs	2000–01	\$3.6 million
Budget variance - decrease		\$0.8 million (or 15 percent)
Cost variance - increase		\$1.0 million (or 28 percent)

The cost of the audit of the Summary Financial Statements of the Government of Canada increased by \$1.0 million in 2001–02 from 2000–01 mainly due to the introduction of new financial systems and changes in accounting policies as part of the government’s Financial Information Strategy. We did more work on assessing internal control environments, which changed as a result of the new systems. The recording of capital assets was a significant accounting policy change from a departmental perspective that also contributed to the increased cost of this audit. While the government deferred reporting capital assets in its Summary Financial Statements, individual departments were still required to identify and record these assets.

While the actual cost of doing the audit of the Summary Financial Statements of the Government of Canada increased in 2001–02 from 2000–01, it did not increase as much as we expected. The actual cost is less than planned, largely due to the early adoption of new methodology as part of our Advancing Audit Practices Project.



## Environment and sustainable development monitoring activities

Budget	2001–02	\$2.3 million
Actual costs	2001–02	\$2.4 million
Actual costs	2000–01	\$2.5 million
Budget variance - increase		\$0.1 million (or 4 percent)
Cost variance - decrease		\$0.1 million (or 0 percent)

Spending on environmental and sustainable development monitoring activities remained stable over 2000–01 and 2001–02.

## Special examinations of Crown corporations

Budget	2001–02	\$2.1 million
Actual costs	2001–02	\$2.3 million
Actual costs	2000–01	\$1.2 million
Budget variance - increase		\$0.2 million (or 10 percent)
Cost variance - increase		\$1.1 million (or 92 percent)

In 2001–02, we completed the special examination of the Canadian Museum of Nature, and worked on another eight examinations. The cost of our work on the special examinations of Crown corporations increased by \$1.1 million in 2001–02 from 2000–01. This work is cyclical since Crown corporations are required to initiate special examinations once every five years and the timing of these examinations is not spread evenly over this cycle.

## Assessments of performance reports

Budget	2001–02	\$1.0 million
Actual costs	2001–02	\$1.0 million
Actual costs	2000–01	\$0.5 million
Budget variance		–
Cost variance - increase		\$0.5 million (or 100 percent)



The cost of the assessments of performance reports increased by \$0.5 million in 2001–02 from 2000–01. The Canadian Food Inspection Agency, the Canada Customs and Revenue Agency, and the Parks Canada Agency are required to produce annual reports that include information on their performance. The Office is required under legislation to assess the fairness and reliability of the performance information contained in these reports. The 2001–02 increase in our costs is due to the addition of the assessment of the Canada Customs and Revenue Agency performance information, which was done for the first time.

### **Professional practice**

Budget	2001–02	\$6.2 million
Actual costs	2001–02	\$6.2 million
Actual costs	2000–01	\$4.4 million
Budget variance		—
Cost variance - increase		\$1.8 million (or 41 percent)

In 2001–02, our costs for professional practice increased by \$1.8 million compared to 2000–01. Note 8 of the audited financial statements which are presented at the end of this Section provides a breakdown of professional practice expenses by type for 2001–02 with comparative figures for 2000–01.

Our costs for methodology increased by about \$1.3 million. About \$0.5 million is for the Advancing Audit Practices Project and the remainder is divided between improvements to our methodology for special examinations and value-for-money audits.

The cost of international activities increased by about \$0.4 million to meet increased commitments for our work with the International Organization of Supreme Audit Institutions including its committees and working groups.



## Financial tables

**Table 1 Summary of voted parliamentary appropriations (\$ millions)**

2001–02			
Vote		Main Estimates	Total appropriations Appropriations used
<b>Auditor General</b>			
20	Program expenditures	48.8	59.2
(S)	Contributions to employee benefit plans	6.7	7.0
	<b>Total</b>	55.5	66.2

Total appropriations of \$66.2 million include \$55.5 million in Main Estimates and \$10.7 million in Supplementary Estimates, adjustments, and transfers.

**Table 2 Comparison of total parliamentary appropriations available to actual spending (\$ millions)**

2001–02			
Legislative auditing		Main Estimates	Total appropriations Actual spending
Full-time equivalents		520	580
Operating expenses		55.1	65.8
Grants and contributions		0.4	0.4
Total parliamentary appropriations available/used		55.5	66.2
Other revenues and expenditures			
Non-respendable revenues		(0.8)	(0.8)
Cost of services provided by other departments		6.7	6.7
Net cost of program <sup>1</sup>		61.4	72.1

<sup>1</sup> The net cost of operations reported in our audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) is \$67.0 million or \$1.3 million less than the net cost of program reported above. Capital assets funded by appropriation were \$2.6 million and amortization expense not requiring the use of appropriations was \$1.3 million. This resulted in a net amount of \$1.3 million charged to our appropriation but not recorded as an expense following GAAP.

**Table 3 Historical comparison of parliamentary appropriations used (\$ millions)**

Business line	1999–2000	2000–01	2001–02		
	Actual	Actual	Planned spending	Total authorities	Actual
Legislative auditing	56.9	58.6	55.5	66.2	62.5





**Table 4 Historical comparison of non-respendable revenues (\$ millions)**

	1999–2000	2000–01	2001–02
Business Line	Actual	Actual	Planned Revenues
Legislative auditing	0.9	0.8	0.8
			Actual
			0.9

The Office charges direct costs for a small number of audits, which include the International Civil Aviation Organization and the United Nations Educational Scientific and Cultural Organization (UNESCO). The funds are not used by the Office but returned to the Consolidated Revenue Fund as non-respendable revenue.

**Table 5 Historical comparison of contributions (\$ millions)**

	1999–2000	2000–01	2001–02
Business Line	Actual	Actual	Planned spending
Legislative auditing	0.4	0.4	0.4
			Total authorities
			0.4
			Actual
			0.4

The Office provides financial support to the CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation) in the form of annual contributions. The mission of CCAF-FCVI Inc. is to provide exemplary leadership and build both knowledge and capacity for effective governance and meaningful accountability, management, and audit. The public sector is the main focus and beneficiary of its work.

**Table 6 Contracting activity for professional services**

Table 6 highlights the Office's contracting activity for professional services in 2001. The Auditor General's power to enter into contracts for professional services is subject to subsection 15(2) of the *Auditor General Act* and not the Government Contracts Regulations. The Auditor General's Policy on Contracting for Professional Services requires that contracts for estimated professional 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. The majority of our contracts are for audit services, which ensure that the appropriate expertise is used in our audit work. This expertise contributes significantly to the quality of our work. Contracts are also awarded for corporate services.

In 2001, the majority of contracts were awarded by the Office on a non-competitive basis. Over 70 percent of these contracts had original values of less than \$15,000. To support the implementation of a new accounting system, the Office awarded one contract on a non-competitive basis for an original contract amount of \$25,400 that fell under the third exception, noted above.

	Original contracts for less than \$25,000 <sup>1</sup>			Original contracts for \$25,000 or more <sup>1</sup>		
	\$000	Number	Percentage	\$000	Number	Percentage
Competitive contracts	135.2	9	2.2	1,320.4	24	96.0
Non-competitive contracts	3,438.3	466	97.8	25.4	1	4.0
Total	3,573.5	475	100.0	1,345.8	25	100.0

<sup>1</sup>Fees only



**Table 7 Compensation and benefits**

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

Position	FTE utilization <sup>1</sup>	Salary	Bilingual bonus	Performance pay	Automobile <sup>2</sup>	Club membership	Total
<i>Auditor General</i>	1	243,400 <sup>3</sup>			2,353	535	246,588
<i>Deputy Auditor General</i>	1	169,650 – 202,965		0 – 14,000		535	169,650 – 216,965
<i>Assistant Auditors General and Commissioner of the Environment and Sustainable Development</i>	10	120,570 – 159,540		0 – 14,000		535 <sup>4</sup>	120,570 – 174,075
<i>Principals</i>	51	96,070 – 123,910		0 – 10,950			96,070 – 134,860
<i>Directors</i>	108	71,575 – 99,410		0 – 8,750			71,575 – 108,160
<i>Auditors</i>	178	26,215 – 71,500	800				26,215 – 72,300
<i>Audit Service Officers</i>	59	42,518 – 78,659	800				42,518 – 79,459
<i>Audit Service Specialists</i>	111	27,637 – 51,474	800				27,637 – 52,274
	519						

<sup>1</sup> Full-Time Equivalents (FTEs) utilized in the fiscal year 2001–02.

<sup>2</sup> Taxable benefit for the personal use of an automobile for the 2001 calendar year.

<sup>3</sup> 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.

<sup>4</sup> The Office pays a club membership for the Commissioner of the Environment and Sustainable Development.

**Table 8 Travel expenses**

The following is a summary of travel expenses for the Office and for selected employees in 2001–02. Office policies for travel incorporate Treasury Board policies and directives for travel.

Travel expenses (\$)			
	Domestic	International	Total
<b>Total office travel expenses</b>	2,928,903	366,922	3,295,825
<b>Travel expenses for selected employees</b>			
Sheila Fraser, Auditor General of Canada	11,846	34,113	
Michael J. McLaughlin, Deputy Auditor General	12,833	-	
Johanne Gélinas, Commissioner of the Environment and Sustainable Development	12,806	20,449	



Travel expenses include the cost of travel, accommodations, meals, and incidental expenses.

International travel directly supports our audit responsibilities for international organizations, such as the International Civil Aviation Organization and the United Nations Educational Scientific and Cultural Organization. The Office also participates in the activities of the International Organization of Supreme Audit Institutions and serves on a number of its committees and working groups. International travel is also undertaken to review international activities of departments and agencies, such as the Canadian International Development Agency and the Department of Foreign Affairs and International Trade.

Domestic travel directly supports various Office activities such as our audits of department and agencies, territorial governments, and our membership in various organizations, such as the Canadian Council of Legislative Auditors and the CCAF-FCVI, Inc. (formerly the Canadian Comprehensive Auditing Foundation).



# Financial Statements

OFFICE OF THE AUDITOR GENERAL  
AND THE  
COMMISSIONER OF THE ENVIRONMENT  
AND SUSTAINABLE DEVELOPMENT



CANADA

BUREAU DU VÉRIFICATEUR GÉNÉRAL  
ET DU  
COMMISSAIRE À L'ENVIRONNEMENT  
ET AU DÉVELOPPEMENT DURABLE

## Management's Statement of Responsibility

Management of the Office of the Auditor General of Canada is responsible for the preparation of the accompanying financial statements and related information contained in this Performance Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen methods which it believes to be appropriate in the circumstances. Where estimates or judgments have been required, management has determined such amounts on a reasonable basis. Financial information disclosed elsewhere in the Office's Performance Report is consistent with these audited financial statements.

In meeting its reporting responsibility, management has established and followed policies and procedures and systems of internal control designed to provide reasonable assurance that assets were safeguarded from loss or unauthorized use, operations are in compliance with governing authorities and financial information is reliable. These internal control systems were periodically tested and evaluated by the internal auditors, and management took any action necessary to respond appropriately to their recommendations. Management recognizes the limits inherent in all systems of internal control but believes the Office has established effective and responsive systems of internal controls through the careful selection of employees, appropriate division of responsibilities, training and other professional development activities, and development of formal policies and procedures.

The Office's Executive Committee oversees management's preparation of the financial statements and ultimately approves the financial statements and related disclosure based on a recommendation from the Office's Audit Committee. As a basis for recommending approval of the financial statements to the Executive Committee, the Audit Committee reviews with management the Office's internal controls over financial reporting and the accounting policies and procedures employed by the Office for financial reporting purposes and, as well, meets independently with internal and external auditors to consider the results of their work.

The external auditors' report as to the fairness of presentation of these financial statements in conformity with Canadian generally accepted accounting principles is included in this Performance Report.

Handwritten signature of Sheila Fraser in black ink.

Sheila Fraser, FCA  
Auditor General of Canada

Handwritten signature of Michael J. McLaughlin in black ink.

Michael J. McLaughlin, CMA  
Deputy Auditor General and  
Senior Financial Officer

Ottawa, Canada  
14 August 2002



## Auditor's Report

To the Speaker of the House of Commons

We have audited the statement of financial position of the Office of the Auditor General of Canada as at 31 March 2002 and the statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at 31 March 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Office 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*.

*Welch & Company LLP.  
Lévesque Marchand S.E.N.C.*

Welch & Company LLP and  
Lévesque Marchand S.E.N.C.  
Chartered Accountants

Ottawa, Canada  
14 August 2002



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

	<b>2002</b>	<b>2001</b>
<b>Assets</b>		
<b>Current assets</b>		
Due from the Consolidated Revenue Fund	\$ 7,444,724	\$ 6,866,657
Accounts receivable	382,752	319,033
	7,827,476	7,185,690
<b>Capital assets (note 4)</b>	4,227,893	2,884,794
	\$ 12,055,369	\$ 10,070,484
<b>Liabilities and Deficit</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Due to employees	\$ 1,716,514	\$ 2,179,573
Due to others	4,528,965	3,763,147
Vacation pay	2,495,328	2,477,975
Current portion of employee severance benefits	1,578,501	994,694
	10,319,308	9,415,389
<b>Employee severance benefits (note 5)</b>	9,561,661	9,651,285
<b>Deficit (note 6)</b>	( 7,825,600)	( 8,996,190)
	\$ 12,055,369	\$ 10,070,484

Contingencies (note 9)

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

Approved by:

*Sheila Fraser*

Sheila Fraser, FCA  
Auditor General of Canada

*Mike McLaughlin*

Michael J. McLaughlin, CMA  
Deputy Auditor General and  
Senior Financial Officer



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

	<b>2002</b>	<b>2001</b>
<b>Expenses (note 7)</b>		
Value-for-money audits	\$ 36,245,599	\$ 35,678,689
Financial audits of Crown corporations, territorial governments and other organizations	15,225,443	15,690,453
Financial audit of the summary financial statements of the Government of Canada	4,562,450	3,649,015
Environment and sustainable development monitoring activities	2,418,949	2,472,004
Special examinations of Crown corporations	2,342,904	1,179,624
Assessments of agency performance reports	1,001,191	521,632
Total cost of audits	61,796,536	59,191,417
Professional practice (note 8)	6,153,612	4,366,467
<b>Total cost of operations</b>	<b>67,950,148</b>	<b>63,557,884</b>
<b>Costs recovered</b>		
International audits	731,126	661,823
Other	158,866	139,766
<b>Total costs recovered</b>	<b>889,992</b>	<b>801,589</b>
<b>Net cost of operations</b>	<b>\$ 67,060,156</b>	<b>\$ 62,756,295</b>

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



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

	<b>2002</b>	<b>2001</b>
<b>Deficit, beginning balance</b>	\$ ( 8,996,190)	\$ (10,122,904)
<b>Total cost of operations</b>	( 67,950,148)	(63,557,884)
<b>Parliamentary appropriations used (note 3)</b>	62,462,189	58,576,424
<b>Services provided without charge by other government departments (note 7)</b>	6,658,549	6,108,174
<b>Deficit, ending balance</b>	\$ ( 7,825,600)	\$ ( 8,996,190)

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





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

	<b>2002</b>	<b>2001</b>
<b>Operating activities</b>		
Cash Payments	\$ ( 60,172,867)	\$ (54,061,922)
Cash Receipts	889,992	801,589
<b>Cash used in operating activities</b>	<b>( 59,282,875)</b>	<b>(53,260,333)</b>
<b>Investing activities</b>		
Capital asset acquisitions	( 2,610,634)	( 2,387,979)
Proceeds from the disposal of capital assets	9,387	4,170
<b>Cash used in investing activities</b>	<b>( 2,601,247)</b>	<b>( 2,383,809)</b>
<b>Financing activities</b>		
Parliamentary appropriations used (note 3)	62,462,189	58,576,424
<b>Cash provided by financing activities</b>	<b>62,462,189</b>	<b>58,576,424</b>
<b>Increase in Due from the Consolidated Revenue Fund during the year</b>	<b>578,067</b>	<b>2,932,282</b>
<b>Due from the Consolidated Revenue Fund, beginning of year</b>	<b>6,866,657</b>	<b>3,934,375</b>
<b>Due from the Consolidated Revenue Fund, end of year</b>	<b>\$ 7,444,724</b>	<b>\$ 6,866,657</b>

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



**Office of the Auditor General of Canada**  
**Notes to the financial statements for year ended 31 March 2002**

**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 and monitoring of federal departments and agencies, Crown corporations, territorial governments and other organizations that include two international organizations.

The business line of the Office of the Auditor General of Canada is legislative auditing and consists of value-for-money audits of departments and agencies, financial 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, environment and sustainable development monitoring activities 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 1.1.

**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.

b) Parliamentary appropriations

The Office is funded by the Government of Canada through annual parliamentary appropriations. Parliamentary appropriations are reported directly in the Statement of 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 direct costs and are recorded on an accrual basis. Amounts recovered are deposited in the Consolidated Revenue Fund and cannot be respend 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) Capital assets

Capital assets are recorded at historical cost less accumulated amortization. The Office capitalizes the costs associated with internal use software including software licenses, 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 capital assets begins when assets are put into use and is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Assets	Useful life
Informatics hardware and infrastructure	3 years
Office equipment	4 years
Furniture and fixtures	7 years
Informatics software	3 years
Motor vehicle	5 years
Leasehold improvements	10 years

f) Employee severance benefits and vacation pay

Employee severance benefits and vacation pay are expensed as benefits accrue to employees under their respective terms of employment using the employees' salary levels at year end. Employee severance benefits and vacation pay liabilities represent obligations of the Office that are normally funded through parliamentary appropriations on a pay-as-you-go basis.

g) 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 directly in the Statement of Deficit.



h) Allocation of expenses

The Office allocates 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 practice projects based on the direct hours charged to them.

i) Contributions to Public Service Superannuation Plan

The Office's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and the Office contribute to the cost of the Plan. Contributions by the Office with respect to current service are expensed in the year in which payments are made. The Office is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Plan.

j) Use of estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, 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. Capital assets and employee severance benefits are the most significant items for which estimates are used. Actual results could differ 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. Parliamentary appropriations**

The Office is funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Deficit in one year may be funded through parliamentary appropriations in prior and future years. Accordingly, the Office's net cost of operations for the year based on Canadian generally accepted accounting principles is different than total parliamentary appropriations used for the year. These differences are reconciled as follows:



a) Reconciliation of net cost of operations to parliamentary appropriations used:

	2002	2001
Net cost of operations	\$ 67,060,156	\$ 62,756,295
Less expenses not requiring the use of appropriations		
Amortization of capital assets	( 1,267,535)	( 657,141)
Services provided without charge by other government departments	( 6,658,549)	( 6,108,174)
Add costs recovered	889,992	801,589
	60,024,064	56,792,569
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations	( 172,509)	( 604,124)
Parliamentary appropriations applied to operations	59,851,555	56,188,445
Capital asset acquisitions funded by appropriations	2,610,634	2,387,979
Total parliamentary appropriations used	\$ 62,462,189	\$ 58,576,424

b) Reconciliation of parliamentary appropriations voted to parliamentary appropriations used:

	2002	2001
Parliamentary appropriations voted:		
Operating expenditures	\$ 59,191,100	\$ 52,773,625
Statutory contributions to employee benefit plans	6,997,000	7,288,000
Proceeds from disposal of Crown assets	9,387	4,170
	66,197,487	60,065,795
Less lapsed appropriations - operating expenditures <sup>1</sup>	( 3,735,298)	( 1,489,371)
Total parliamentary appropriations used	\$ 62,462,189	\$ 58,576,424

1. Subject to parliamentary approval, organizations can carry forward into the next fiscal year up to 5 percent of their operating budgets (based on Main Estimates program expenditures). In 2001-02, this amount is \$2.4 million for the Office.



#### 4. Capital assets

<b>Cost</b>	<b>31 March 2001</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 March 2002</b>
Informatics Hardware and Infrastructure	\$ 3,532,849	\$ 76,046	\$ 917,045	\$ 2,691,850
Office Equipment	481,112	273,286	112,910	641,488
Furniture and Fixtures	148,635	8,277	—	156,912
Informatics Software	1,856,915	1,015,446	—	2,872,361
Motor Vehicle	22,226	24,305	22,226	24,305
Leasehold Improvements	—	1,213,274	—	1,213,274
	\$ 6,041,737	\$ 2,610,634	\$ 1,052,181	\$ 7,600,190

<b>Accumulated amortization</b>	<b>31 March 2001</b>	<b>Amortization</b>	<b>Disposals</b>	<b>31 March 2002</b>
Informatics Hardware and Infrastructure	\$ 2,617,691	\$ 449,228	\$ 917,045	\$ 2,149,874
Office Equipment	362,304	54,978	112,910	304,372
Furniture and Fixtures	100,858	7,586	—	108,444
Informatics Software	55,346	752,641	—	807,987
Motor Vehicle	20,744	3,102	22,226	1,620
Leasehold Improvements	—	—	—	—
	\$ 3,156,943	\$ 1,267,535	\$ 1,052,181	\$ 3,372,297
<b>Net book value</b>	\$ 2,884,794			\$ 4,227,893

#### 5. Employee severance benefits

In 2002, the Office paid \$213,479 (\$515,215 in 2001) for severance benefits to employees and expensed \$707,662 (\$584,950 in 2001).

#### 6. Deficit

The deficit represents liabilities incurred by the Office net of capital assets that have not yet been funded through appropriations. Significant components of this amount are employee severance benefits and vacation pay liabilities.



## 7. Summary of Expenses by Major Classification

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

	2002	2001
Salaries and Employee Benefits	\$ 47,711,852	\$46,216,781
Professional Services	7,115,171	6,068,634
Travel, Relocation and Communication	4,200,831	3,920,886
Office Accommodation	4,076,074	4,047,946
Informatics, Informatics Maintenance and Repairs, Office Equipment, Furniture and Fixtures	3,047,436	1,499,236
Utilities, Materials and Supplies and other payments	792,293	649,754
Printing and Publications Services	629,148	777,137
Contribution to the CCAF-FCVI inc. (formerly the Canadian Comprehensive Auditing Foundation)	377,343	377,510
<b>Total cost of operations</b>	<b>\$ 67,950,148</b>	<b>\$63,557,884</b>

In 2002, the total cost of operations included services provided without charge by other government departments totaling \$6,658,549 (\$6,108,174 in 2001). This is composed of \$4,076,074 (\$4,047,946 in 2001) for accommodation and \$2,582,475 (\$2,060,228 in 2001) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan.

## 8. Professional practice

The Office works with other legislative audit offices, professional associations such as the Canadian Institute of Chartered Accountants and internally to advance legislative audit methodology, accounting standards and best practice. International activities include participation in organizations and events that impact on our work as legislative auditors.



	2002	2001
Methodology and knowledge management	\$ 3,046,717	\$ 1,739,269
International activities	2,167,280	1,828,974
Canadian Council of Legislative Auditors	393,838	276,234
Contribution to the CCAF-FCVI inc. (formerly the Canadian Comprehensive Auditing Foundation)	377,343	377,510
Participation in standard-setting activities	168,434	144,480
<b>Professional Practice</b>	<b>\$ 6,153,612</b>	<b>\$ 4,366,467</b>

## 9. Contingencies

In 2000–01, the Public Service Alliance of Canada filed a pay equity suit against the Crown alleging discrimination based on sex had occurred between 1982 and 1997 in seven separate employers. The Office, although not a party to the suit, is one of the seven employers named in the suit. The suit requests that the Treasury Board or the responsible employer retroactively increase the wage rates of employees of specific separate employers to remedy the discrimination. No amount is specified in the claim. In the opinion of management, the estimated amount of the contingent liability for employees of the Office of the Auditor General employed by the Office between 1982 and 1997 is about \$5 million. Further, in the opinion of management, the outcome of the suit is not determinable at this time and accordingly, no liability has been recognized in the financial statements.

## 10. Related party transactions

The Office is related in terms 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.

In 2002, the Office incurred expenses of \$14,883,468 (\$14,745,821 in 2001) and recovered costs of \$3,463 (\$31,196 in 2001) from transactions in the normal course of business with other government departments, agencies and Crown corporations during the year. These expenses include services provided without charge of \$6,658,549 (\$6,108,174 in 2001) as described in note 7.





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

	2002	2001
Accounts receivable	\$ 112,396	\$ 184,427
Accounts payable	1,732,223	836,116

## 11. Retirement benefits

Contributions to the Public Service Superannuation Plan represent the total pension obligations of the Office and are recognized in the accounts on a current basis. The Office's contribution to the Plan was \$4,736,969 for the year ended 31 March 2002 (\$4,970,416 for 2001).



# SECTION 5

---

## *Other Information*

### **Crosswalk between the 2001 and the 2002 Performance Reports**

There are a few minor changes in the structure of our 2001–02 Performance Report compared to the previous year.

We have strengthened our results chain and made efforts to integrate it better with the presentation of our performance. We have also enhanced the information that we provide on the strengths and limitations of the methodology underlying our indicators. This information is included in the following section, Methodological Endnotes.

In addition, what was formerly Section 2 on Office Performance in last year's performance report, has been split into two sections. Section 2 now focusses on the context of our Office's operations, including risk management, human resource management, and methodology. Section 3 presents our performance, and focusses on how well we serve Parliament and organizations we audit, outlining our performance according to the strategic outcomes shown in the results chain. Section 4 (formerly Section 3) outlines our financial performance, and Section 5 (formerly Section 4) provides other related information.

### **Statutory reports**

• Report of the Auditor General of Canada to the House of Commons	Published periodically. Available in a variety of formats and on our Web site( <a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a> ).
• Report of the Commissioner of the Environment and Sustainable Development to the House of Commons	Published annually. Available in a variety of formats and on our Web site ( <a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a> ).
• Opinion of the Auditor General on the Financial Statements of the Government of Canada	Published annually in the Public Accounts of Canada, Volume I and available on the Web site ( <a href="http://www.pwgsc.gc.ca/recgen/text/pubacc-e.html">http://www.pwgsc.gc.ca/recgen/text/pubacc-e.html</a> ).
• Opinion on the Condensed Financial Statements of the Government of Canada	Published annually in the Annual Financial Report of the Government of Canada.



• Opinions by the Auditor General on over 100 financial statements of federal Crown corporations, other organizations, territorial governments and organizations, and international organizations	Published in the various statutory reports that contain the financial statements of these organizations.
• Special examinations of Crown corporations	Submitted to the boards of directors every five years.
• Annual Report on Other Matters to the Yukon Legislative Assembly, to the Northwest Territories Legislative Assembly, and to the Nunavut Legislative Assembly	Submitted annually to the legislative assemblies and available from the Clerk of each assembly.
• Assessment of agency performance reports	Submitted annually to the management boards.

## Methodological endnotes

1. Participation in our Envirosurvey was voluntary. Employees were invited to fill-out a questionnaire on our Office Intranet. We received 289 responses which is a response rate of 56 percent.
2. When we count the number of hearings and briefings in which we participate, we consider our appearances before the Standing Committee on Public Accounts as well as the other parliamentary committees from the House of Commons and the Senate. The other indicator (value-for-money audits reviewed by parliamentary committees) is a ratio of 2001–02 audits which resulted in a hearing over the total number of audits published during the same fiscal year. We report the ratio of audits reviewed by parliamentary committees to those published in the fiscal year. This review can occur in a subsequent fiscal year, but would contribute to the Office’s performance for the year that the report was published. Any revisions of historical numbers would be noted. Finally, the variance between the proportion of audits reviewed by parliamentary committees (71 percent in 2001–02 compared with 56 percent in 2000–01) must be interpreted cautiously. We reported fewer audits in 2001–02, 21 resulting in 15 hearings, compared to 36 in 2000–01, which resulted in 20 hearings. The lower number of audits compared against the hearings better explains our performance. Parliament sat for fewer weeks in 2000–01 because it was an election year.
3. We developed a comprehensive methodology to take into account the multiple aspects of our relationship with Parliament in our survey of parliamentarians. All the interviews were conducted by a consultant to ensure independence of results. First, we decided to set up interviews with all of the members of the standing committees of Public Accounts and Environment and Sustainable Development since they are most likely to use our reports. Our consultant interviewed 16 out of the 17 members of the Standing Committee on Public Accounts and 12 out of 16 members of the Standing Committee on Environment and Sustainable Development. For the members of Parliament and Senators, we took a random sample of individuals from the combined



group and interviewed them. The sample size was 60, with a maximum confidence interval of  $\pm 9.8$  percent, 18 times out of 20. For each of the individual questions, the confidence interval is likely to be smaller. To obtain this level, 104 members of Parliament and senators were contacted, resulting in a response rate of 58 percent. The main reason that most members of Parliament and senators cited for not engaging in interviews was that they were too busy with the shortened session and had conflicting schedules.

4. We analyze the content of the Standing Committee on Public Accounts reports to the House on the Auditor General's reports in order to gauge the extent of endorsement of our recommendations.

Recommendations are shown as follows

Endorsed:	The Standing Committee on Public Accounts' recommendations closely paralleled Office recommendations.
Discussed:	In the text of the report, there is a discussion of the issue or recommendation and it seems to support our recommendations.
Not mentioned:	No reference to that issue in the Standing Committee on Public Accounts' report.
Rejected:	Disagreement in the text of the report or a contrary recommendation.

Since our audits were tabled in December 2001, there was only three months left in 2001–02, which was not enough time to generate a sufficient level of activity that would accurately reflect our performance. Next year, better data will be available for performance reporting. The Committee expects to table an additional eight reports, in addition to the three tabled since December 2001. Once these additional reports are tabled, we will be able to assess our 2001–02 performance and show the results in our next performance report. It is interesting to note that none of our recommendations have ever been rejected and this trend has been historically stable.

5. The Office conducts a survey of the senior management of Crown corporations and federal agencies that require an annual financial audit (Canadian Food Inspection Agency, Canada Customs and Revenue Agency, and Parks Canada) and international organizations audited by us (International Civil Aviation Organization and UNESCO). We ask them questions about the usefulness of the financial audit information and the quality of our audit process. This survey of chief financial officers and chairs of audit committees is conducted every two years. It was first initiated in 1997, and the 2001 survey was the third survey performed. Because our chain of results was only developed in 2000–01, we only have trend data for some of the key performance indicators. In some instances, questions that are compared to survey results of previous years have changed but were similar enough to allow comparisons. In addition, not all



organizations surveyed had both a chief financial officer and a chair. Consequently, 62 chief financial officers and 51 chairs were surveyed, which meant that an overall response rate of 76 percent was achieved.

6. The Office surveys Crown corporations at the end of each special examination about the process and the information provided to senior management and the board of directors. Each Crown corporation is surveyed once every five years which is the usual length of a special examination cycle.
7. Each audit team is responsible for tracking the status of outstanding recommendations. Their assessment is based on knowledge of the organization's business, review of documentation provided by organizations, and, in some cases, interviews with officials of these organizations. We consider the reliability of this information to be limited.

The ratios reported in Exhibits 13 and 14 outline recommendations completed, (where corrective action has been fully implemented) and the ones progressing at a satisfactory pace. There is a small variation with these numbers and the ones provided last year. Sixty-five percent of recommendations were reported as being implemented in 2000–01 (a ratio that combined recommendations completed and the ones where progress is being made at a satisfactory pace) compared to 72 percent using the new calculations, for the same fiscal year. This is due to adjustments that were made as we computerized our recommendations database.

These statistics are based on a five-year moving average, such as 1995–99 or 1996–2000. The latest data available for this report show the status of the recommendations made between 1996 and 2000. We did not follow up the recommendations made in 2001 because they were published in December 2001 and this left very little time for departments to act on them.

We followed up 79 percent of the 1140 recommendations made during the 1996–2000 period and the statistics shown in Exhibits 13 and 14 are based on this information. We did not review the remaining 21 percent of the recommendations because either the organization does not exist anymore, it is undergoing an extensive re-organization, a significant change in program legislation or a follow-up was deferred for strategic or timing reasons.



## Web Site References

*In the interests of keeping this report brief and focussed on its most essential content, many items that could be of interest to you, but not necessarily critical to the reporting of our performance itself, have been made accessible through our web site or other web links.*

### Office of the Auditor General of Canada

Office of the Auditor General	<a href="http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/menue.html">http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/menue.html</a>
Sheila Fraser, Auditor General of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html">http://www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html</a>
Commissioner of the Environment and Sustainable Development	<a href="http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/environment.html">http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/environment.html</a>
The Commissioner, Johanne G��linas	<a href="http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu1_e.html#commissioner">http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu1_e.html#commissioner</a>
OAG Reports and Publications	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html">http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html</a>
Internal Audit Reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html">http://www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html</a>
Commissioner of the Environment and Sustainable Development Publications and Resources	<a href="http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu3_e.html">http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu3_e.html</a>
<i>Financial Administration Act</i>	<a href="http://www.oag-bvg.gc.ca/domino/reports.nsf/html/97abe.html">http://www.oag-bvg.gc.ca/domino/reports.nsf/html/97abe.html</a>
<i>Auditor General Act</i>	<a href="http://www.oag-bvg.gc.ca/domino/reports.nsf/html/97aae.html">http://www.oag-bvg.gc.ca/domino/reports.nsf/html/97aae.html</a>
OAG Organizational Chart	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu3e.html/\$file/orgchart_e.pdf">http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu3e.html/\$file/orgchart_e.pdf</a>

### Government of Canada

Parliament	<a href="http://www.parl.gc.ca/common/index.asp?Language=E">http://www.parl.gc.ca/common/index.asp?Language=E</a>
Standing Committee on Public Accounts	<a href="http://www.parl.gc.ca/infocom/CommitteeMain.asp?Language=E&amp;CommitteeID=157&amp;Joint=0">http://www.parl.gc.ca/infocom/CommitteeMain.asp?Language=E&amp;CommitteeID=157&amp;Joint=0</a>
Standing Committee on Environment and Sustainable Development	<a href="http://www.parl.gc.ca/infocom/CommitteeMain.asp?Language=E&amp;CommitteeID=142&amp;Joint=0">http://www.parl.gc.ca/infocom/CommitteeMain.asp?Language=E&amp;CommitteeID=142&amp;Joint=0</a>
Standing Committee on National Finance	<a href="http://www.parl.gc.ca/common/Committee_SenHome.asp?Language=E&amp;Parl=37&amp;Ses=2&amp;comm_id=13">http://www.parl.gc.ca/common/Committee_SenHome.asp?Language=E&amp;Parl=37&amp;Ses=2&amp;comm_id=13</a>
Treasury Board Secretariat	<a href="http://www.tbs-sct.gc.ca/home_e.html">http://www.tbs-sct.gc.ca/home_e.html</a>
<i>Results for Canadian: A Management Framework for the Government of Canada</i>	<a href="http://www.tbs-sct.gc.ca/res_can/rc_e.html">http://www.tbs-sct.gc.ca/res_can/rc_e.html</a>
Financial Information Strategy	<a href="http://www.tbs-sct.gc.ca/fin/FIS-SIF/FIS-SIF_e.html">http://www.tbs-sct.gc.ca/fin/FIS-SIF/FIS-SIF_e.html</a>



### **Professional Organizations**

International Organization of Supreme Audit Institutions (INTOSAI)	<a href="http://www.intosai.org/1_defaue.html">http://www.intosai.org/1_defaue.html</a>
INTOSAI - Environmental Working Group	<a href="http://www.environmental-auditing.org">http://www.environmental-auditing.org</a>
Canadian Council of Legislative Auditors	<a href="http://www.ccola.ca/english/ccola_home.htm">http://www.ccola.ca/english/ccola_home.htm</a>
Canadian Institute of Chartered Accountants	<a href="http://www.cica.ca">http://www.cica.ca</a>
CCAF-FCVI Inc.	<a href="http://www.ccaf-fcvi.com/english">http://www.ccaf-fcvi.com/english</a>
Financial Management Institute	<a href="http://www.fmi.ca/index_e.html">http://www.fmi.ca/index_e.html</a>
International Federation of Accountants	<a href="http://www.ifac.org">http://www.ifac.org</a>
Institute of Internal Auditors	<a href="http://www.theiia.org">http://www.theiia.org</a>
United Nations Panel of External Auditors	<a href="http://www.unsystem.org/auditors/external.htm">http://www.unsystem.org/auditors/external.htm</a>
Canadian Evaluation Society	<a href="http://www.evaluationcanada.ca/site.cgi?section=1&amp;_lang=en">http://www.evaluationcanada.ca/site.cgi?section=1&amp;_lang=en</a>

