

OFFICE OF THE AUDITOR GENERAL

21.

REPORT ON THE OFFICE OF THE AUDITOR GENERAL

MANDATE

21.1 The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989). The Act specifies the responsibility to examine the accounts of the Province and its various agencies and the requirement to report to the House of Assembly on the government's stewardship of public funds. Appendix I on page 222 of this Report includes extracts of the audit mandate and reporting sections of the Auditor General Act.

21.2 Some other Provincial statutes and regulations, as well as other enabling arrangements for certain entities, provide additional or more specific mandates to this Office. For the most part these relate to the performance of the annual financial statement audit function for certain crown agencies or funds. The Office's mandate under Section 65A of the Provincial Finance Act, with respect to the review of the annual revenue estimates, is quite unique.

21.3 In addition to the Office's statutory mandate(s) there have been instances where audit coverage by this Office has been incorporated into policy guidelines and control standards prepared by senior public servants. For example, see the extracts in Appendix 21A on page 219 from internal policy and standard guidelines. Further, the Department of Finance's draft policy for debt management also includes reference to specific involvement by this Office.

21.4 While we do not take exception to general reference to the Office's work in such policy statements, we are concerned that there may be some misunderstanding about the nature, extent or timing of our coverage in such regards. As presented, it could be interpreted that this Office actively audits each of the respective areas or matters on a detailed and almost continuing basis. This may not be the case, since each year we make decisions as to which aspects of government operations and control will get specific attention.

MISSION, VISION AND VALUES

21.5 Exhibit 21.1 is an extract from the Office's *Business Plan* which was prepared after consideration of the guidelines issued within government for use by departments and agencies.

STRATEGIC GOALS AND OBJECTIVES

21.6 As a result of internal planning activities, the Office has identified the following key goals that are being used to guide our audit and related activities.

- To achieve positive change in the accountability for and management of public funds.
- To provide assurance on the credibility of financial statements and other representations in order to assist the House of Assembly to hold the government to account.

*Exhibit 21.1***Office of the Auditor General
Mission, Vision and Values**

Our Mission - The Office derives its mandate from the Auditor General Act (Chapter 28, 1989). The people of Nova Scotia, through their elected representatives, need assurance that their tax dollars are expended for the purposes intended. As the legislative auditor of the Province, the Office helps the House of Assembly to hold the government to account by providing opinions:

- on the credibility of financial statements and other government representations;
- concerning compliance with legislation, regulations, agreements, and policies;
- on the adequacy of control; and
- on the extent of due regard for economy and efficiency in the management of public funds.

In addition, the Office provides advice to assist in improving the accountability for, and the management of, public funds.

Our Vision - The Office strives for excellence in public sector management and value for money in the use of public funds.

Our Values - In pursuing our mission, we value our clients, our people, and our professionalism.

- We strive to provide quality service to the House of Assembly, its members, and other clients. We do this with initiative and commitment, employing state of the art knowledge, skills, and abilities. We seek to be progressive, encouraging leadership, intelligent risk-taking, and high standards of reliability.
- We treat each other with fairness and equality, communicating openly, honestly, and respectfully. We place great importance in career development, training, professional fulfilment, and quality of work life. We work together as a partnership, support staff and professionals, recognizing each person's unique contribution.
- We work to the highest standards of our profession, maintaining a relationship with the House of Assembly and the government that is confidential, independent, objective, and professional. We endeavor to be creative while remaining practical, economical, and efficient. We share our knowledge, values, ideas, and experiences within the Office, the government, and our profession.

- To strive for excellence through the pursuit of state-of-the-art knowledge, skills and abilities, and to work to the highest standards of our profession.
- To provide cost effective use of resources in support of the role and responsibilities of our Office.

21.7 These goals are reviewed each year and will continue to evolve. Further, we monitor our overall performance against these goals.

CORE BUSINESS FUNCTIONS

21.8 The Office conducts audits under the Auditor General Act and reports the results to the House of Assembly. The types of audits and reports provided are described in the Mission. However, for purposes of a more complete description, our business function is comprised of the following elements:

- In addition to the Auditor General Act, other legislation, including the Provincial Finance Act, specifies audit responsibilities. Under each of these our function is to provide information to the House of Assembly, and advice to both the government and managers of government entities.
- We perform assessments from which flow the provision of assurance, advice, recommendations and analyses.
- We identify and monitor emerging issues, and research developments and initiatives in other jurisdictions related to the management and control of public funds, in order to provide advice regarding opportunities for improvement.
- We support the Public Accounts Committee by providing information through briefings, research and by responding to queries.

OUTCOME MEASURES

21.9 While outcomes can only be measured through compilation and interpretation of data from various sources, for purposes of performance monitoring, we have identified the following outcome measures relating to the achievement of the Office's strategic goals and objectives.

- The degree to which positive change has occurred in the management of public funds. This can only be measured over time and requires benchmarking and subsequent comparison.
- The extent to which financial statements and other management representations are presented fairly, on a timely basis, and are considered useful as accountability reports. This also can only be measured over time and requires benchmarking and subsequent analysis.
- The extent of external recognition of the Office as an effective professional legislative audit function. This can be measured in a variety of ways including peer review, report user feedback, media analysis and professional recognition.

- The comparison of the costs of the Office to the costs of similar legislative and other audit organizations. Various cost comparisons can be developed and analyzed to measure Office performance.

21.10 We have begun to gather and consider general information against these outcome measures, and are committed to such being a more formal and integral element of our ongoing planning and performance management processes. Further, initiatives within the legislative audit community, particularly under the auspices of the Conference of Legislative Auditors (COLA), appear to have the potential for refinement of outcome measures for legislative audit offices. We will continue to participate in these efforts while striving to utilize those outcome measures we have identified.

ORGANIZATION

21.11 As at December 1997 we had 25 staff, one of whom was seconded to the Department of Education and Culture. Subject to the availability of funds, we outsource for specialist expertise and other audit resources on selected assignments.

21.12 Public funds of the Province of Nova Scotia are collected and expended through various departments and agencies. In order to effectively plan and manage the activities of the Office, we are organized into three teams each headed by a senior manager. Staff members are periodically rotated among the teams to provide career development opportunities, technical training, and to meet operational priorities. Each of the senior managers reports to the Auditor General, participates in the overall management of Office activities, has overall responsibility for a group of departments and agencies, and is the prime focus for communications with those organizations.

21.13 It is a responsibility of each senior manager to periodically review past and intended audit coverage of assigned portfolio departments and agencies. These reviews are to be consolidated into multi-year strategic and longer-range plans giving due consideration to the needs of the House of Assembly, intended themes for reporting, evaluation of risk factors, and availability of resources.

21.14 Exhibit 21.3 on page 218 provides summary financial information on the Office's operations. Staff costs consistently account for 80% or more of the Office's expenditures on an annual basis.

21.15 The Office's restructuring and downsizing initiatives are being supported in part by increased use of information technology resources, including an application obtained from the Federal Department of Public Works and Government Services Canada.

COMMITTEE OF INDEPENDENT ADVISORS

21.16 In 1994 an Independent Advisory Committee of senior members of the business and academic community was established. The terms of reference for the committee are provided in Exhibit 21.2 on page 217. Several other legislative auditors in Canada successfully use such an advisory committee.

21.17 The creation of this group and its participation have been positive initiatives, and we appreciate the open and insightful contributions it continues to make to our efforts to plan and manage the Office's activities and outputs.

PROFESSIONAL AFFILIATIONS AND ACTIVITIES

21.18 The Office strives to remain at the leading edge of legislative and other professional audit practices, and to share knowledge and experiences within those communities. We do this through participation in a variety of professional organizations including the following.

- The Canadian Conference of Legislative Auditors
- The Canadian Institute of Chartered Accountants (CICA)
- CCAF-FCVI Inc.
- The Certified General Accountants Association
- The Information Systems Audit and Control Association
- The Institute of Chartered Accountants of Nova Scotia (ICANS)
- The Institute of Internal Auditors (IIA)
- The Society of Management Accountants

21.19 Professional staff at all levels participate as members of committees, by providing input and commentary on research publications, and by attending various professional conferences, seminars and meetings.

PERFORMANCE

21.20 Overall, we are pleased with our achievements. Much remains to be done, but the following are examples of our accomplishments over the past year.

- The Public Accounts Committee continues to meet regularly and appears to appreciate the briefings and other assistance provided by our Office.
- We continue to be the only legislative audit office that provides an opinion on the government's annual revenue estimates and such a review was once again performed. Interest in the provision of this service has been expressed by other jurisdictions.
- Communications with central agencies, departments, other government agencies, professional organizations and the public have been maintained and enhanced. Outside counsel through the Independent Advisory Committee has been of great benefit.
- Staff development continues to be a priority, particularly in the area of information technology. The Office's decision, three years ago, to return to the CA training program was rewarded again in 1997 as one of our students qualified.
- We made increased use of external contract audit resources to meet our financial statement audit deadlines.
- The use, control and audit of information technology resources is of strategic importance to the performance of the Office. We have made significant investments

in recent years aimed at providing our staff with the resources, training and support processes needed. This will represent an ongoing and continuing commitment by the Office, and we are actively taking steps to monitor the results and payback of the related investments.

- We commenced a review of our audit methodology and practices, including consideration of the implication of the CICA's new standards for assurance engagements.
- We issued a Special Report on the Province's March 31, 1997 financial statements on August 22, 1997.
- Due to statutory changes requiring government to release the *Public Accounts* by December 31, we adjusted our audit timetable and schedule in order to have this year's Report ready for release approximately two months earlier than in prior years.

PRIORITIES

21.21 Strategic and long-range planning for the Office is to be based on an analysis of the Office's audit universe which was updated last year. This will give due consideration to the needs of the Legislature, areas of risk, major themes and, of course, availability of resources.

21.22 With the continuing development of the government's plans and priorities as described in *Government By Design*, the Office will focus its activities on relating its audit objectives to the government's priorities of economic renewal, social responsibility, cost-effective and client-focussed service, and fiscal stability.

21.23 On the administrative side, our priorities are to continue to operate within our expenditure control plan. This will entail filling certain vacancies that arise as a result of retirements or resignations with more junior professional staff.

21.24 Within these overall strategic priorities, our specific goals are the following:

- To improve the quality of our audits by utilizing contracted specialists when it is cost effective to do so and where funds are available.
- To improve the quality of external communication.
- To continue to provide appropriate support to the Public Accounts Committee and to seek ways in which we can provide the Committee with more timely information on issues and developments.
- To build on and expand the use of information technology as a means of optimizing the cost effectiveness of Office resources.

21.25 In addition to the above and the specific audit projects planned, we plan to:

- Arrange to have our financial statement audit practices assessed by the Institute of Chartered Accountants of Nova Scotia's Professional Standards Review program.
- Pursue opportunities to have our broader-scoped audit practices subject to a peer review by qualified and experienced representatives from legislative audit functions in other jurisdictions.

- Pursue opportunities to conduct joint or concurrent audits in selected areas with the legislative audit functions in other jurisdictions.
 - Continue our participation in a Conference of Legislative Auditors' study group on performance management and reporting by the legislative audit function and expand our use of the various performance indicators which have been identified through the COLA study group.
 - Make further scheduling adjustments such that the *Report of the Auditor General* can be ready for release within two to three weeks of the release of the *Public Accounts*.
 - Continue progress toward implementation of any changes to our audit methodology and practices, including adhering to the CICA's new standards for assurance engagements.
 - Participate in joint audit initiatives relating to the new corporate financial management system (CFMS) as well as debt management policies and practices. External specialist and other audit resources will be involved in each of these.
 - Increase liaison and communication with the internal audit community within government, especially in relation to achieving cost-effective and continued audit coverage of:
 - adequacy of financial systems and controls, and
 - compliance with government's procurement policies and information technology standards.
 - Provide constructive and timely advice and assistance to the Public Accounts Committee, the central agencies of government and various departments and agencies to strengthen and formalize accountability arrangements. To the extent appropriate this will include timely audit input and advice during the development of proposed improvements.
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*Exhibit 21.2***AUDITOR GENERAL OF NOVA SCOTIA
COMMITTEE OF INDEPENDENT ADVISORS****TERMS OF REFERENCE****OBJECTIVE**

The role of the committee is to advise the Auditor General on issues facing the Office and to assist in promoting effective management of public funds and improved accountability.

More specifically the Committee will consider and advise on:

1. Initiatives designed to strengthen the professional competence, adherence to professional standards and overall effectiveness of the Office.
2. Technical and managerial issues arising from government-wide and departmental audits.
3. Accountability issues with particular regard to information published by the Government on financial and program performance.
4. Strategic and long-term operational objectives of the Office.

MEMBERSHIP

1. The Committee consists of no fewer than six and no more than eight senior members of the business and academic community selected for their knowledge and experience in the fields of management, finance, accounting and auditing in both the public and private sectors.
2. Members serve on a voluntary basis at the invitation of the Auditor General for a term of one year and are eligible for reappointment.
3. The Committee is chaired by the Auditor General with secretarial support provided by his Office.

MEETINGS

1. Meetings are held at least semi-annually at the call of the chair.
2. An agenda and briefing material are prepared by the Auditor General and circulated in advance of the meeting. Additional briefings are provided by staff of the Office.

Exhibit 21.3

OFFICE OF THE AUDITOR GENERAL SUMMARY FINANCIAL INFORMATION			
	1996-97 Estimate	1996-97 Actual	1997-98 Estimate
Salaries & Benefits	<u>\$ 1,588,000</u>	<u>\$ 1,453,041</u>	<u>\$ 1,486,400</u>
Operating Costs			
- Travel	57,500	59,520	67,500
- Professional & special services	25,000	29,468	39,000
- Supplies & services	76,500	58,258	65,000
- Other (including IT related costs)	<u>64,000</u>	<u>167,668</u>	<u>77,900</u>
	<u>223,000</u>	<u>314,914</u>	<u>249,400</u>
Gross Expenditure	1,811,00	1,767,955	1,735,800
<i>Less:</i> Fees & other charges	<u>(120,000)</u>	<u>(142,100)</u>	<u>(112,800)</u>
Net Expenditures	<u>\$ 1,691,000</u>	<u>\$ 1,625,855</u>	<u>\$ 1,623,000</u>
<p>(1) During 1996-97, the Office reallocated certain staff costs to fund technology investments. Also during 1996-97, the Technology & Science Secretariat acquired information technology resources for the Office at a cost of \$85,000, which are not included above.</p> <p>(2) The costs associated with the Office's leased premises are not included above. Those costs - approximately \$108,700 for 1996-97 - are reported by the Department of Transportation and Public Works.</p>			

*Appendix 21A***Extracted from Procurement Guidelines***Audit*

All procurement activities will be subject to such audit processes as may be determined appropriate by the Auditor General or the Auditor General in consultation with the Procurement Branch. Two forms of audit may occur. A compliance audit may be conducted to determine the level of adherence with established procurement rules and policies. A quality audit may also be undertaken in conjunction with or separately from compliance audits. The quality audit will examine the process undertaken and decisions reached from a defensibility and accountability point of view. Departments experiencing unacceptable compliance or quality audits and, in the opinion of the Minister of Finance, fail to undertake suitable measures for their resolution, may have all delegated procurement authority revoked until such time as satisfactory steps have been taken.

All procurement activities will be subject to audit by departmental internal auditors and specific audits as instructed by the Procurement Branch.

Extracted from Information Technology (IT) Standards*Review for Compliance:*

Perform formal review of various departments' use of IT standards. Done by the Office of the Auditor General.

Audit Process and Report:

Produce formal audit report on departments' use of IT Standards. Done by the Office of the Auditor General.

Audit for Benefit and Value:

Perform audit of IT standards use in departments regarding the benefit and financial value. Done by the Office of the Auditor General.

