

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 252 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 with respect to the review of the annual revenue estimates is quite unique. During 1998, amendments to the Auditor General Act were passed expanding the Auditor General's Mandate, most notably with regard to the audit of the *Public Accounts* commencing with the fiscal year ended March 31, 1999.

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 approved by government. For example, see the extracts from internal policy and standard guidelines in Appendix 21A on page 250. 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 and more detailed coverage.

MISSION, VISION AND VALUES

21.5 Exhibit 21.1 on page 247 is an extract from the Office's *Business Plan* which had been 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.

- 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 where appropriate, 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 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 making this 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 Canadian Council of Legislative Auditors (COLA), have provided more structured and detailed mechanisms that will support our efforts in this regard.

ORGANIZATION

21.11 As at December 1998, we had 24 staff. 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 In order to ensure continuity within the Office, a recommendation was made to the Governor in Council for the appointment of a senior manager from within the Office to the position of Deputy Auditor General. This appointment was made, and in addition the titles of the other two senior managers were changed to Assistant Auditor General to more accurately reflect their responsibilities.

21.14 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.

21.15 Exhibit 21.3 on page 249 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.

21.16 The Office's restructuring and downsizing initiatives in recent years were supported in part by increased use of information technology resources, including a system obtained from the Federal Department of Public Works and Government Services Canada.

COMMITTEE OF INDEPENDENT ADVISORS

21.17 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 248. Certain other legislative auditors in Canada successfully use similar advisory committee arrangements.

21.18 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

21.19 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 Council of Legislative Auditors (CCOLA)

The Canadian Institute of Chartered Accountants (CICA)

CCAF-FCVI Inc.

The Certified General Accountants Association

The Financial Management Institute

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

21.20 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

21.21 In addition to our required and planned assignments, the Office continued to receive various general and specific matters referred to it from sources external to the Office, including government, opposition parties and the general public. Our ability to react or respond to such matters, if appropriate, is contingent on our available resources and other priorities.

21.22 Overall, we are pleased with our achievements in the past year, but much remains to be done. The following are summary comments on the Office's activities and accomplishments over the past year.

- We continue to be the only legislative audit office in Canada that provides an opinion on a 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.
- We again made successful use of external contract audit resources to meet our financial statement audit deadlines. With the increasing workload relating to annual financial statement attestation, the Office will continue to expand its use of contracted resources.

- Staff development continues to be a priority, particularly in the area of information technology.
- 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 monitor the results and payback of the related investments.
- We have inventoried and assessed our risks and exposures to the Year 2000 problem and its potential impact on our business functions and activities. Our overall risks have been assessed as low since most of our hardware and software are already compliant.
- The Office continues to receive requests for information on or demonstration of the Lotus Notes based audit suite which we implemented in order to automate more of our audit process and file working papers.
- An internal review of our audit methodology and practices, including consideration of the implication of the CICA's new standards for assurance engagements, was conducted and a number of matters requiring senior management consideration have been identified.
- At the request of government, an assignment was conducted and special report issued on the O'Connell Drive Elementary School lease.
- At the request of the Nova Scotia School Boards Association, we audited the Teachers' Salary Continuation Plan and issued a report.
- With Finance, we jointly sponsored an external assessment of the controls relating to the new corporate financial management system. Audit staff from Finance, and this Office worked with the successful proponent on this assignment.
- At the request of Executive Council an audit of the Workers' Compensation System was completed and a special report issued in November 1998. The audit work was tendered and contracted to an external firm, although two staff from our Office participated in the performance of the assignment.
- We commenced a joint audit of the Federal/Provincial Infrastructure Works Program with the Federal Office of the Auditor General, and are participating in a study group of the Canadian Council of Legislative Auditors on joint audits.
- We initiated discussions with government's internal audit community to improve liaison and coordination of our respective audit mandates and resources.
- Due to statutory changes passed in June 1998 requiring release of the Auditor General Report by December 31, we adjusted our audit timetable and schedule in order to have this year's Report ready for release approximately a month earlier than last year.
- We continued our participation in a Canadian Council of Legislative Auditors study group on performance management and reporting by the legislative audit function, and remain committed to expanding our use of various performance indicators which have been identified through the study group.

- The Office has established an occupational health and safety (OH&S) committee as required by statute and government policy. The results of an initial assessment of the Office as it relates to OH&S identified opportunities for improvement, which are to be considered by the committee and senior management.

PRIORITIES

21.23 Strategic and long-range planning for the Office is based on an analysis of the Office's audit universe. This gives due consideration to the needs of the Legislature, areas of risk, major themes and, of course, availability of resources.

21.24 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.

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

- To improve the quality of our audits, including the work related to the Office's new public accounts audit mandate, 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.
- To complete our remediation, testing and implementation of the changes to address our Year 2000 issues and risks.
- To build on and expand the use of information technology as a means of optimizing the cost effectiveness of Office resources.

21.26 In addition to the above and the specific audit projects planned in 1999, we plan to:

- Successfully plan and perform the audit of *Public Accounts* as at March 31, 1999.
- Make further scheduling adjustments such that the *1999 Report of the Auditor General* can be ready for release by early December 1999.
- As necessary or requested, 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.
- Be prepared 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.

- Continue our involvement and support for the CCOLA and its various study groups and other efforts.
 - Pursue opportunities to conduct joint or concurrent audits in selected areas with the legislative audit functions in other jurisdictions.
 - Make decisions and implement any necessary changes to our audit methodology and practices, including adhering to the CICA's new standards for assurance engagements.
 - Continue efforts to enhance liaison and coordination with the internal audit community within government, especially in relation to achieving cost-effective audit coverage of significant areas of common concern across government. For example: the adequacy of financial systems and controls, the year 2000 issue, as well as compliance with government's procurement policies and information technology standards.
-

*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.

*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			
	1997-98 Estimate	1997-98 Actual	1998-99 Estimate
Salaries & Benefits	<u>\$ 1,486,400</u>	<u>\$ 1,303,674</u>	<u>\$ 1,505,600</u>
Operating Costs			
- Travel	69,500	40,434	57,000
- Professional & special services	23,000	68,823	40,000
- Supplies & services	81,000	74,380	85,200
- Other (including IT related costs)	<u>75,900</u>	<u>132,334</u>	<u>130,000</u>
	<u>249,400</u>	<u>315,971</u>	<u>312,200</u>
Gross Expenditure	1,735,800	1,619,645	1,817,800
<i>Less:</i> Fees & other charges	<u>(112,800)</u>	<u>(143,300)</u>	<u>(112,800)</u>
Net Expenditures	<u>\$ 1,623,000</u>	<u>\$ 1,476,345</u>	<u>\$ 1,705,000</u>
<p>(1) During 1997-98, the Office reallocated certain staff costs to fund technology investments. Also during 1997-98, the Technology & Science Secretariat acquired information technology resources for the Office at a cost of \$25,000, which are not included above.</p> <p>(2) The costs associated with the Office's leased premises are not included above. Those costs - approximately \$108,669 for 1997-98 - 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.