

17.**REPORT ON THE OFFICE OF THE AUDITOR GENERAL****INTRODUCTION**

17.1 The year 2000-01 was productive for the Office of the Auditor General. It was a year in which the Office made significant efforts to examine its role and renew its strategic directions. It was also a time for further developing the measuring and reporting of Office performance. This Chapter presents a summary of Office accomplishments and activities in 2000-01, a discussion of performance indicators developed for the Office and measurements made against them, as well as the Office's complete 2002-03 Business Plan.

ACCOMPLISHMENTS AND ACTIVITIES

17.2 A number of accomplishments occurred during the period preceding the publishing of this Report.

- A formal strategic planning exercise was conducted which led to a renewal of the Office's mission, vision, long-term goals and planned strategic initiatives.
- Through the work of task groups comprised of professional staff of the Office, new processes were developed for ensuring audit quality, identifying training opportunities, and measuring and reporting performance.
- Decisions were made on audit priorities. Goals were set for expanding the broad scope auditing done by the Office, and plans were made for developing an approach for auditing and reporting on government non-financial performance information.
- Processes were implemented to improve staff communication and the transfer of professional knowledge.
- Steps were taken to ensure the objectivity and independence of professional staff in the conduct of audit assignments.
- The Office has been engaged to audit the performance report of the Department of Health required by September 2002 under the Communiqué on Health agreed to at the September 2000 First Ministers' Meeting. Nova Scotia was the first legislative audit office in Canada to be so engaged. This is a significant development for the Office as it will be our first audit of a non-financial performance report.
- The Office completed its third annual audit of the Province's summary consolidated financial statements. Significant efficiencies were experienced this year, resulting in fewer hours being required to do the audit.
- 22 other financial statements audits were performed by the Office for the year ended March 31, 2001. Of these, ten were contracted out to private sector firms.

- 11 broad scope audits were performed and are presented in this Report.
- The Office continues to be the only legislative audit office in Canada to be engaged to review the revenue estimates of a government.
- Five staff members are training to become professional accountants. Again this year, the Office employed university co-op students and new graduates enrolled in the Career Starts program.

PERFORMANCE OF THE OFFICE

17.3 The 2002-03 Business Plan of the Office of the Auditor General is presented in Exhibit 17.1 to this Chapter. Section 8 of the Plan presents performance areas and indicators developed by the Office, as well as some performance measurements and targets for the indicators described. As with most public sector organizations, performance measurement and reporting is an evolving process in the Office and will continue to improve as the Office's capacity to measure performance develops and needed information becomes available.

17.4 The following paragraphs summarize and explain Office performance according to the five performance areas identified in the Business Plan: client services, professional standards, resource allocations, audit efficiency, and human resources. Because performance measurement was under development during the year, there were no 2000-01 targets set for any of the indicators described. However, targets have been set for future periods. Refer to Section 8 of the Plan for more information about the performance indicators discussed below.

17.5 *Client services* - The primary clients of the Office are the members of the House of Assembly, and through them, the Nova Scotia public. The principal service provided is the conduct of audits and the reporting of results to our clients. The Office has a significant number of government entities which fall under its mandate and it is not possible to audit each on an annual basis. Therefore, the Office must monitor the regularity with which it conducts audits in these organizations to ensure audit resources are expended strategically. We have determined that the Office has conducted audits in 53% of the larger entities at least once during the last five years. Without additional resources, a significant increase in this figure will not be possible. However, as the Office believes its clients receive more value from broad scope audits, any increase in audit coverage achievable will be in the broad scope area.

17.6 The Office provides assistance to the House of Assembly through direct reporting to the Legislature, and through interaction with its all-party Public Accounts Committee (PAC). The Office was represented at every meeting of the PAC during the year, except for those dedicated to the writing of the Committee's annual report.

17.7 The objective of a financial statement audit is to provide an opinion on the fairness of presentation of the statements. If a positive (or unqualified) opinion cannot be provided, a qualified opinion is issued. We advise entities audited on how they can achieve and maintain fair presentation. Last year, we issued five qualified Auditor's Reports. Three were the result of an inherent inability to verify certain revenues or receipts, typical for entities which receive donations or similar assets. Accordingly, we will continue to advise the two other entities audited on how to prepare financial statements which will not result in qualified opinions in future years.

17.8 *Professional standards* - The Office follows the professional standards of the Canadian Institute of Chartered Accountants (CICA). Because the Office is licensed to train individuals seeking to become chartered accountants, it is subject to a practice review by the Institute of

Chartered Accountants of Nova Scotia. A significant part of the review is to determine if the Office complies with professional standards. The last practice review by the Institute was for 1999. The review found that the Office was in compliance with professional standards, though some recommendations were made. All of the recommendations, except one, were implemented. A recommendation on how to report on financial statements prepared on a basis other than generally accepted accounting principles (GAAP) has not yet been implemented. The professional standards relating to this issue are not clear, and further guidance is required from the CICA before proceeding on the matter. Nonetheless, we will continue to encourage and advise the relevant entities to change their accounting practices so they are in full compliance with GAAP.

17.9 *Resource allocation* - The primary revenue sources for the Office are funds provided through the budgetary appropriation and the billing of certain audits. This revenue is expended mainly on the salaries of staff. The hours worked by staff are recorded and monitored.

17.10 For the year ended March 31, 2001, the Office committed 68% of all recorded hours to audit activities. Five percent went to professional development activities, 11% to administration, and 16% to various types of leave (e.g., vacation, illness, secondment). We believe the amount of time committed to professional development and administration is reasonable. We will seek ways to increase the portion of hours committed to audit activities in the future.

17.11 The Office had a net budget of \$1,850,000 for the year ended March 31, 2001. Actual net expenditures were approximately \$121,000 (7%) less than budgeted because salaries and benefits were underspent. The Office strives to maintain a full complement of professional staff in order to maximize hours available for audits. However, turnover does occur and delays in filling vacancies lead to underexpenditures on salaries and benefits.

17.12 *Audit efficiency* - The Office monitors the accomplishment of audit target dates, as well as various financial ratios relating to its audit activity.

17.13 Government organizations which prepare their own financial statements are required by legislation to submit their statements to the Minister of Finance by June 30 each year. Many of these organizations have their financial statements audited; some by our Office and others by private sector firms. The timely completion of an audit is dependent on a number of issues, such as the start date for an audit, readiness of the organization for audit, availability of information required during an audit, efficiency of the audit team, timely review of draft financial statements and the resolution of audit issues upon completion of audit fieldwork. Thus, the accomplishment of audit target dates is dependent on both the auditor and the auditee. Of the 22 March 31, 2001 financial statements audited by the Office, nine were completed and issued by June 30, 2001. In each case, audit fieldwork was completed prior to the target date, but clearing of draft financial statements and audit issues led to the 13 instances of financial statement audits not being completed prior to June 30. The Office will examine the reasons for these delays and work with auditee management to try to make post-fieldwork completion of audits more timely.

17.14 Target dates were accomplished for the audit of government's summary consolidated financial statements, as well as for the review of 2001-02 Revenue Estimates.

17.15 For the year ended March 31, 2001, the Office expended the equivalent of \$1.83 for each member of the Nova Scotia public, \$0.32 for each \$1,000 of government revenue, or \$50.28 for each hour of staff time spent on audit activity. We believe these financial indicators give perspective on the efficiency with which the Office uses its resources. However, these measures will become more meaningful as they are tracked over time and compared to similar measurements by other legislative audit offices in Canada.

17.16 *Human resources* - The Office's success depends on maintaining a group of experienced, highly-trained and well-motivated staff. The Office monitors the amount of time spent by staff in professional development activities and the amount of staff turnover experienced each year.

17.17 For the year ended March 31, 2001, on average, staff members committed 12 days to professional development activities. This includes time committed by students in programs leading to a professional accounting designation. On average, student training time is higher than this average, and the time for professional staff is lower. The average is down from 20 days in the preceding year because an extensive in-house course on broad scope auditing was provided to staff in 1999-2000. This course is not offered each year. Based on benchmarking with other legislative audit offices, we believe 15 days would be an appropriate average amount of time for staff to spend on professional development activities.

17.18 Three staff members left the Office between November 1, 2000 and October 31, 2001 - one due to retirement, one relocated to another Provincial entity, and one to the private sector. Three individuals were hired during this period, each at a student auditor level. The Office prefers to have some staff turnover in order to maintain career development opportunities for staff. Hiring at the student level promotes this objective.

PLANNING FOR THE FUTURE

17.19 Each fall, the Office prepares a plan for the following year. The 2002-03 Business Plan for the Office is presented in its entirety in Exhibit 17.1 to this Chapter. Much of the Plan originated from the strategic planning conducted by the Office in 2001. The Plan describes the mission, vision and mandate of the Office. It describes major challenges faced and provides a budget for the ensuing year. The Plan highlights the Office's strategic goals, core business areas and priorities for 2002-03. Section 8 identifies the primary performance indicators used by the Office, and presents some performance information prepared to date.

Exhibit 17.1

**OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NOVA SCOTIA
2002-03 BUSINESS PLAN**

**OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NOVA SCOTIA
2002-03 BUSINESS PLAN**

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1. Mission and Vision

The mission of the Office of the Auditor General expresses who the organization serves, how it serves them, and what it hopes to achieve.

To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

The vision of the Office of the Auditor General expresses its aspirations for itself, as well as the greater outcome it wishes to be a prime contributor towards.

Demonstrating and being recognized for independence, professional excellence, and credibility.

Making a significant contribution in support of an accountable and well-performing government.

2. Planning Context

Mandate - The Office of the Auditor General is an organization created and empowered by the House of Assembly of Nova Scotia. The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989) and other legislation. The Auditor General Act specifies the responsibility to examine the accounts of the Province, its various agencies and transfer payment recipients, and the requirement to report to the House of Assembly on the government's stewardship of public funds.

The Auditor General helps the House of Assembly to hold government to account by providing opinions:

- on the credibility of financial statements and other government accountability reports;
- 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.

The Act vests sole responsibility for removal of the Auditor General in the House of Assembly. This protection provides appropriate independence from government.

Organization - The Office is located in Halifax and is comprised of 27 staff, all but three of whom are professional accountants or studying to become a professional accountant. The Office is organized into three teams, each led by a Deputy or Assistant Auditor General. Each team is responsible for auditing a portfolio of government departments and related agencies, boards, commissions and transfer payment recipients. An organization chart is included as Appendix 1 to this document.

Major Challenges - The major challenges faced by the Office can be summarized as follows.

- Ensuring all audits meet the rigorous professional standards of the Canadian Institute of Chartered Accountants, and communicated in a manner which ensures a good understanding of the findings and conclusions derived.
- Setting priorities for the audit of a large number of government departments, agencies and transfer payment recipients, knowing that limited resources will not permit the Office to examine every significant revenue and expenditure area on a regular basis.

- Remaining well versed in the standards and body of knowledge of the numerous professional fields that impact on the scope of our audits (e.g., accounting, auditing, information technology, performance reporting, governance, value-for-money, auditing of compliance with legislation and regulations), and maintaining a good understanding of the structure and operations of the government organizations that we audit.
- Maintaining a full complement and appropriate mix of highly-motivated professional staff at a time when government salaries are not always competitive with private sector salaries.

3. Strategic Goals

As a result of strategic planning, the Office has identified twenty-five goals, organized under six headings. The following is a summary of these goals.

- I. To focus on audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.
- II. Through the use of knowledgeable staff and best professional practices, to ensure the Office's work meets or exceeds relevant professional standards.
- III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.
- IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.
- V. To ensure the Office manages its resources with due regard to economy and efficiency.
- VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.

4. Core Business Areas

The Office has two core business areas, as follows.

- Conduct audits in accordance with generally accepted auditing standards and report to the House of Assembly to help it hold government accountable for its stewardship of public funds.
- Provide advice to government management to help them better manage and account for their performance.

However, the two areas are fully integrated with each other as both are related products of audits conducted. Thus, they cannot be separated for planning purposes and this plan does not differentiate between them when discussing goals, priorities, resource management, etc.

5. Priorities

I. To perform audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.

- Develop a strategy and implementation plan for the audit of government performance reports.
- Audit and provide assurance on the performance report which the Department of Health is to have published by September 2002.
- Follow up on the 2000 audit of the Halifax Regional School Board.
- Focus more audit effort in the areas of:
 - treasury management;
 - management use and control of information technology; and
 - government operations relating to offshore petroleum.

II. Through the use of knowledgeable staff and best professional practices, ensure the Office's work meets or exceeds relevant professional standards.

- Establish and implement an expanded quality control process for all assurance work.
- Establish and implement an expanded process for continuous review and updating of audit methodology.
- Improve the Office's process for monitoring and disseminating changes in professional standards and bodies of knowledge.
- Expand our monitoring of best practices in other jurisdictions.

III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.

- Review the Office's current communication methods and develop a strategy to improve communication with key groups affected by the work of the Office.

IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.

- Prepare a human resource plan which addresses staff hiring, training and development, compensation and succession/career-path.
- Determine the level of job satisfaction and gather/consider suggestions for improvement.

V. To ensure the Office manages its resources with due regard to economy and efficiency.

- Improve project management and reporting systems and practices.
- Conduct more audits by optimizing the percentage of Office resources committed to assurance work.

VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.

- Develop a system which will enable us to define, measure and report on the performance of the Office.
- Benchmark Office performance against similar organizations in Canada.

6. Budget Context

The Office derives its funding from an annual appropriation of the House of Assembly, as well as from the billing of audit services in certain situations. The following shows the actual and budgeted expenditures and recoveries of the Office for the years 2000-01 to 2002-03, as well as an estimate of the number of positions which the Office will be able to fund.

	Actual 2000-01	Budget 2001-02	Budget 2002-03 ¹
Salaries and benefits	\$ 1,560,476	\$ 1,718,000	\$ 1,653,400
Other staff expenses	76,225	69,000	73,000
Travel	54,233	53,000	53,000
Professional services	67,742	75,000	110,000
Office administration	93,276	145,000	140,600
Total Expenses	1,851,952	2,060,000	2,030,000
Recoveries	122,923	140,000	110,000
Net Expenses	\$ 1,729,029	1,920,000	\$ 1,920,000
	Actual 2000-01	Budget 2001-02	Budget 2002-03¹
Staff - Full Time Equivalent	28.1	29.4	27.0

1. The 2002-03 budget and the business plan as a whole are based on a preliminary estimate of the funding available to the Office. If final funding differs materially from preliminary figures, parts of this plan may need to be adjusted.

With these resources, the Office audits the financial statements and reviews the revenue estimates of the Province of Nova Scotia, audits the financial statements of 22 other government organizations, as well as performs approximately 10 to 15 value-for-money/broad scope audits each year.

The Office continually strives to meet its mandate in the most economic and efficient manner possible. Many of the initiatives described above in Section 5 demonstrate the Office's intentions in this regard. Goal V and its related initiatives specifically address the wise use of resources by the Office.

The Office's major expenditure relates to salaries and benefits, which represents approximately 86% of the Office's net expenses. Office administration is only 7% of net expenses. Accordingly, any significant reduction in the funds available to the Office would result in a decrease in staff. All but two staff members are directly involved in providing audit services, thus downsizing would affect the number of audits we do. Certain of our audits are required by Legislation. Any reduction in audits would have to be in the area of non-legislated assignments. This would be in the area of value-for-money/broad scope audits, which comprise most of our discretionary work.

7. Linkages/Partnerships

The Office partners or otherwise works with other organizations in the performance of its work.

- The Office has participated with other legislative audit offices (i.e., Auditors General) in the performance of audits of entities which do business in multiple jurisdictions, and in cases where there are similar government operations in various jurisdictions and there would be efficiency gained from audit offices coming together to plan such assignments.
- The Office engages private sector public accounting firms to conduct certain financial statement audits on behalf of the Auditor General. Such audits are supervised by the Office, and audit opinions expressed are those of the Auditor General.

- Accountants, consultants and specialists are hired on a contract basis to assist with audit assignments performed by the Office.
- The Auditor General works closely with his counterparts in other jurisdictions through the Canadian Council of Legislative Auditors. The Office has worked closely with the Canadian Institute of Chartered Accountants in addressing common issues of concern and the development of public sector auditing and accounting standards. The Auditor General has worked closely with CCAF/FCVI Inc. in their efforts to improve public sector accountability, governance and management.
- On occasion, the Office has partnered with government Internal Auditors on assignments.

The Office continues to seek opportunities where partnerships would improve the quality and efficiency of our work.

8. Performance Measurement

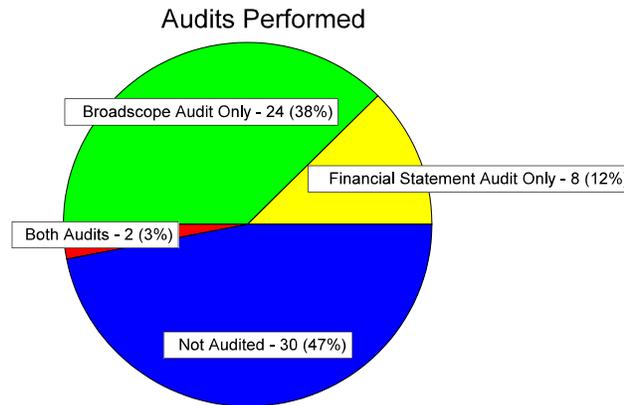
The Office of the Auditor General has identified five categories of performance that will be monitored on an ongoing basis. For each of these areas, performance indicators have been identified and systems of measurement are being developed. Because performance measurement for the Office is under development, this business plan does not present comparatives for some of the performance indicators identified and no targets were available for the periods being reported upon. These measures will be further developed in the coming years as additional performance information becomes available.

CLIENT SERVICE

1. **Performance Indicator** - Number of major entities in which either a financial statement or broad scope audit was performed within the last five years. Financial statement audits include audits done by the Office, as well as those done on behalf of the Office under contract with a private sector firm.

Performance Period - Five years ended October 31, 2001.

Performance Measurement -



Future Years' Targets - To increase total coverage by increasing the number of broad scope audits performed by 10%.

2. **Performance Indicator** - Analysis of types and frequency of assistance provided to the Public Accounts Committee (PAC).

Performance Period - November 1, 2000 to October 31, 2001.

Performance Measurement - Representatives of the Office attended every meeting of the Public Accounts Committee (except report writing sessions) between November 1, 2000 and October 31, 2001. This included two briefings by the Office on the Annual Report of the Auditor General, three briefings by the Office on individual audits performed, and 16 other meetings, most of which involved the Committee interviewing witnesses with respect to various operations and activities of government.

Future Years' Targets - To continue to attend every meeting of the PAC, except those which the committee members dedicate to the writing of the Committee's annual report.

3. **Performance Indicator** - Results of audits of financial statements and review of revenue estimates.

Performance Period - Financial statements for the year ended March 31, 2001, and Revenue Estimates for 2001-02.

Performance Measurement - An unqualified Auditor's Report was issued for government's March 31, 2001 summary consolidated financial statements. A qualified report was issued for its 2001-02 Revenue Estimates. The Office conducted 22 financial statement audits, 5 of which resulted in a qualified Auditor's Report.

Future Years' Targets - To reduce qualified audit reports by advising auditees on how to conform to Canadian generally accepted accounting principles. However, three financial statements will not achieve an unqualified auditor's report because a material amount of the revenues or receipts reported therein are not conducive to audit verification.

PROFESSIONAL STANDARDS

4. **Performance Indicator** - Results of professional practice review performed by Institute of Chartered Accountants of Nova Scotia.

Performance Period - Reviews are conducted every four or five years. The last review addressed audits done for the year ended March 31, 1999.

Performance Measurement - Audits reviewed were determined to have complied with professional standards. A small number of recommendations were made. All recommendations have been implemented, except one pertaining to the type of Auditor's Report issued in cases where the audit entity uses a basis of accounting other than generally accepted accounting principles. We are advising these auditees to adopt a more appropriate basis of accounting, and we are monitoring professional standards under development by the Canadian Institute of Chartered Accountants which may provide additional guidance on this issue.

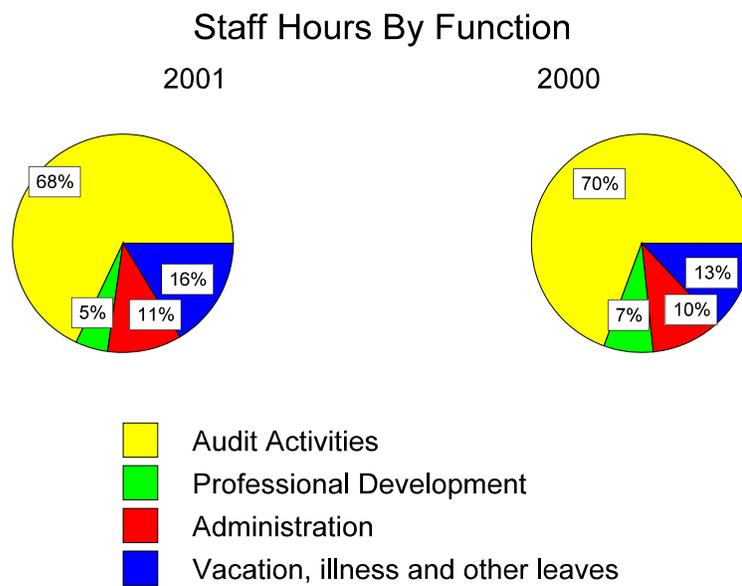
Future Years' Targets - To continue to participate in the Institute of Chartered Accountants of Nova Scotia's Professional Standards Review process, and to conduct our audits in a manner that results in compliance with professional standards.

RESOURCE ALLOCATION

5. **Performance Indicator** - Staff hours committed to various audit and administrative tasks. (This indicator does not include time spent by private firms contracted by the Office to conduct certain financial statement audits.)

Performance Period - Year ended March 31, 2001.

Performance Measurement - Staff hours totaled 50,517 in 2000-01 and 47,678 in 1999-2000.



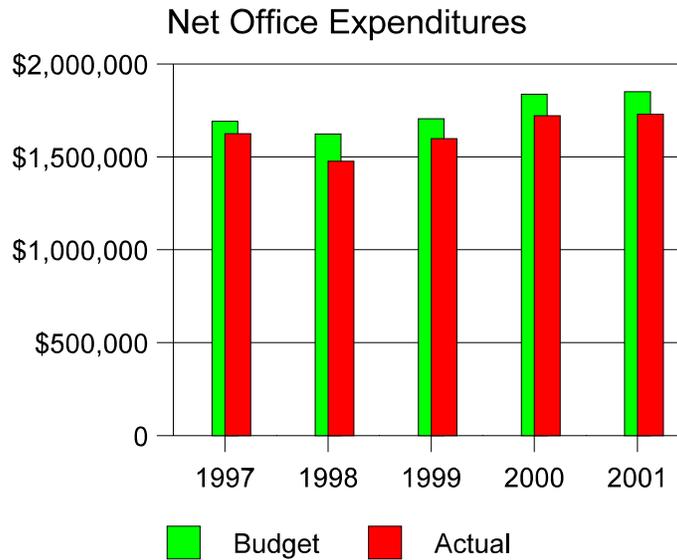
Future Years' Targets - To increase the time spent on audit activities to 70%.

6. **Performance Indicator** - Actual expenses and recoveries compared to budget.

Performance Period - Year ended March 31, 2001.

Performance Measurement -

	March 31, 2001 Actual	March 31, 2001 Budget	Variance
Salaries and benefits	\$ 1,560,476	\$ 1,682,300	\$ 121,824
Other staff expenses	76,225	72,000	(4,225)
Travel	54,233	58,000	3,767
Professional services	67,742	70,000	2,258
Office administration	93,276	107,700	14,424
Total Expenses	1,851,952	1,990,000	138,048
Recoveries	122,923	140,000	17,077
Net Expenses	\$ 1,729,029	\$ 1,850,000	\$ 120,971



Future Years' Targets - To meet the budgetary targets of the Office.

AUDIT EFFICIENCY

7. **Performance Indicator** - Number and percentage of target completion dates met.

Performance Period - Financial statements for the year ended March 31, 2001, Revenue Estimates for 2001-02, and Annual Report of the Auditor General for 2000.

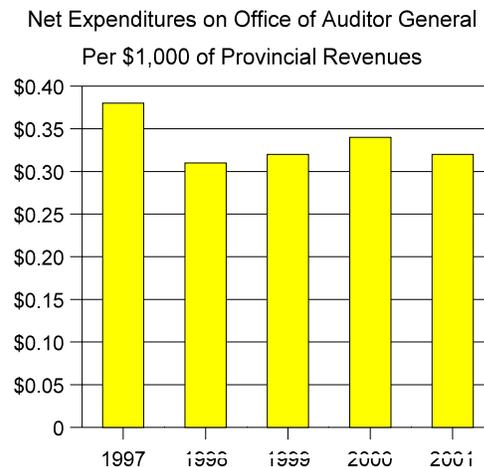
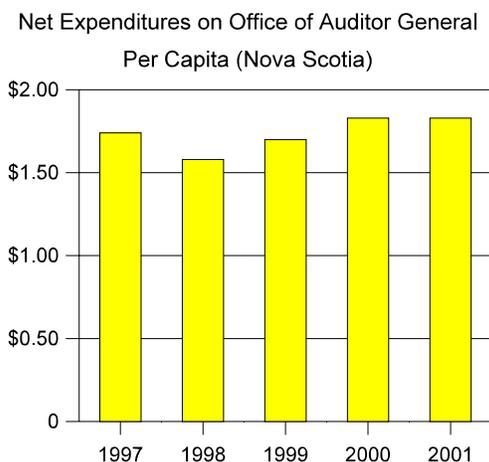
Performance Measurement - The target dates for our audit of the Government's 2001 Financial Statements and our review of its 2001-02 Revenue Estimates were met. Of 22 financial statement audits conducted, the June 30 target date was met on 9 of them (41%). The 2000 Annual Report of the Auditor General was not issued before its target date - December 31, 2000.

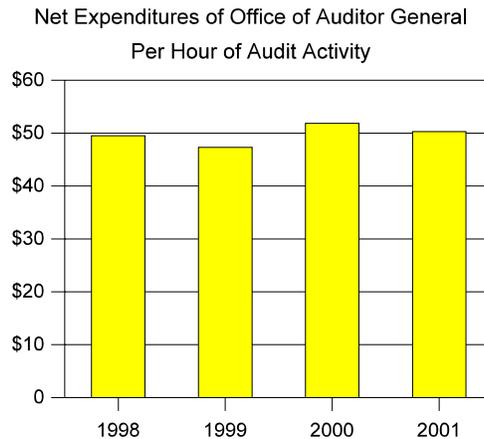
Future Years' Targets - The ultimate goal is to have all financial statement audits completed by June 30 each year. Intermediate goals are to increase the percentage of financial statement audits completed by this date to 60% by 2002, and 80% by 2003. We also aim to issue the Annual Report of the Auditor General on or before December 31 each year.

8. **Performance Indicator** - Various Office financial measures.

Performance Period - Year ended March 31, 2001.

Performance Measurement -





Future Years' Targets - Benchmarking against other jurisdictions will be needed to set reasonable targets for these three financial measures.

HUMAN RESOURCES

9. **Performance Indicator** - Days of professional development per staff member.

Performance Period - Year ended March 31, 2001.

Performance Measurement - 2000-01: 12 days. 1999-2000: 20 days. These figures included professional development time of students studying to become professional accountants, as well as professional development for all other staff.

Future Years' Targets - 15 days per year.

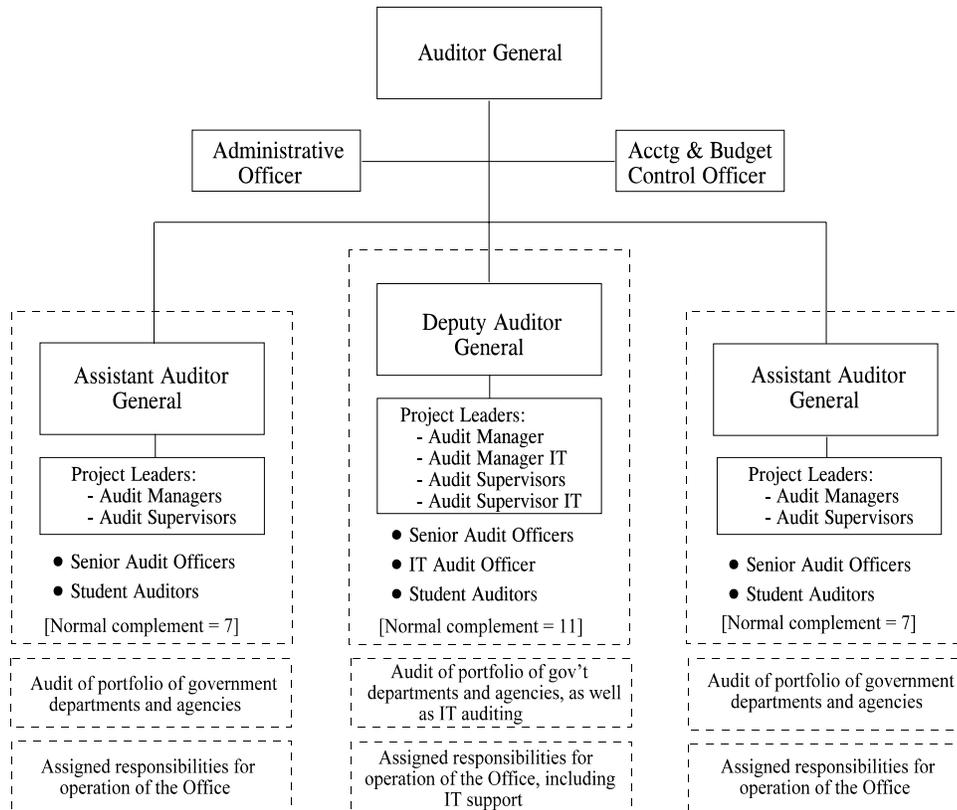
10. **Performance Indicator** - Staff turnover.

Performance Period - November 1, 2000 to October 31, 2001.

Performance Measurement - Three staff left and three joined during the 12 month period, representing approximately 11% of total staff.

Future Years' Targets - To maintain total staff at full complement, but to have a rate of turnover that will allow for healthy career development for staff. Turnover at 10% per year would be reasonable.

**Office of the Auditor General of Nova Scotia
Organization Chart
2001**



APPENDICES