



**NOVA SCOTIA**

# **2005 Performance Report and 2006 Business Plan**

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**OFFICE of the  
AUDITOR GENERAL**





Honourable Maureen MacDonald, MLA  
Chair  
Standing Committee on Public Accounts  
House of Assembly of Nova Scotia

Madam:

I have the honour to submit to the Public Accounts Committee the 2005 Performance Report and the 2006 Business Plan of the Office of the Auditor General.

Respectfully submitted

A handwritten signature in blue ink, appearing to read 'J. Lapointe'.

Jacques R. Lapointe, BA, CA•CIA  
Auditor General

Halifax, Nova Scotia  
April 3, 2006

c Honourable Cecil Clarke  
Speaker  
House of Assembly



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# 1 MESSAGE FROM THE AUDITOR GENERAL

I am pleased to present this report on the performance of the Office of the Auditor General for the year ended December 31, 2005, as well as the Office's business plan for the 2006 calendar year. The report can also be found on the Office's website at [www.gov.ns.ca/audg](http://www.gov.ns.ca/audg).

I began my term as Auditor General of Nova Scotia on March 1, 2006. In my readings and discussions so far I have noted the many accomplishments of the Office in the last several years; they are reflected in this report and prior years' reports. We have in the Office of the Auditor General a solid foundation for excellence in service to the Legislature and the people of Nova Scotia. I look forward to working with my staff and with the many audit stakeholders to continue to build on that foundation, to add to the successes already achieved. There are, of course, challenges to be faced and we will face them.

One of the more significant challenges will be the wide scope of the Office's mandate to audit an expanding Nova Scotia public sector, with limited financial and human resources. This requires careful selection of priorities. Adding to this challenge, significant recent developments in Canadian auditing standards, partly in response to recent corporate failures and scandals, have strengthened requirements for quality control and audit processes. These developments will challenge audit resources across the country and my Office will be no exception. More time, and more staff, will be required simply to maintain the same level of auditing.

One of my first priorities in the coming year will be to lead the Office through a strategic planning exercise. Good strategic planning is vital to identifying an organization's goals, setting its direction and its priorities, developing its strengths and correcting its weaknesses. The mission and goals presented in the current business plan are based on earlier strategic planning done by the Office. The next round of strategic planning in 2006 will undoubtedly lead to changes in some of the goals and related priorities presented in the current report.

My overall objective is to lead the Office of the Auditor General in providing the best possible assurance service to the House of Assembly and the people of Nova Scotia; to serve the House and the people to the best of our abilities, while meeting or exceeding all auditing and ethical standards of the profession.

I would like to extend my thanks to the former Auditor General, Roy Salmon, for his dedication to public service over the last fourteen years, and for his efforts to aid in my transition to this new role. I wish him the very best in his well-earned retirement.



Jacques R. Lapointe, BA, CA•CIA  
Auditor General

## 2 AUDITOR GENERAL'S STATEMENT ON AUDITOR INDEPENDENCE

Canadian generally accepted auditing standards require that I communicate at least annually with groups having oversight responsibilities for financial reporting subject to my audit, regarding all relationships between the entities audited and my Office that, in my professional judgement, may reasonably be thought to bear on my independence. In this regard, I assert that I am not aware of the existence of any such relationships. Further, I hereby confirm that my staff and I are objective with respect to the audit work of the Office within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia. The following section of this Report provides additional information on the role and independence of my Office, including measures taken to maintain independence and objectivity.

Most of the cost of my Office is funded through annual appropriations of the House of Assembly. The Office also receives revenues from auditees who are billed fees for certain audits. All revenues received through billings during the year were for assurance-related work. The Office is not economically dependent on any of the organizations it audits.

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# 3

## ROLE OF THE AUDITOR GENERAL

### ACCOUNTABILITY STRUCTURE

In its simplest form, accountability is the obligation to answer for an assigned responsibility. Accountability is an important component of parliamentary democracy due to the significant responsibilities conferred to elected government officials by the public and the need for these officials to account for the stewardship of public money provided for government services and administration.

An audit function is important to any accountability structure. In the case of parliamentary democracy, elected officials and the public require assurance that government reporting on the spending of public funds is complete, accurate and fairly presented. In the absence of government reporting, there is also a need for auditors to examine and report on the control and performance of government organizations and programs. Elected officials and the public need to know that assurance provided by the auditor is free from bias. The Auditor General fulfills this role in the accountability structure of the government of Nova Scotia. The Auditor General, in the conduct of his audits and reporting to the House of Assembly, provides objective assurance needed by elected officials and the public to hold government accountable.

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### INDEPENDENCE OF THE AUDITOR GENERAL

Independence is critical to the effectiveness of an audit function. An auditor must be independent, and be perceived to be independent, of the organizations and operations subject to audit. Unless there is a clear demonstration of objectivity in the work of the auditor, the auditor's opinions and reporting will not be fully accepted, and the auditor's work will lose value.

The independence of the Auditor General is assured in various ways. The Office of the Auditor General was created and is empowered by the House of Assembly through an Act of the Legislature (the Auditor General Act). The Act sets out the primary mandates and responsibilities of the Auditor General, and specifies that the Auditor General is to report directly to the House. The Act also requires approval of the appointment of an Auditor General by the House of Assembly and vests sole authority for removal of the Auditor General with the House of Assembly. Therefore, the key functions of the Office, from selection of assignments to contents of reporting, are outside the control of government departments and other organizations subject to audit.

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### PROFESSIONAL CONDUCT

The Office of the Auditor General strives to operate to the highest standards of the accounting and auditing profession. The work of the Office adheres to standards for assurance engagements promulgated by the Canadian Institute of Chartered Accountants. Professional staff of the Office are required to abide by the Code of Professional Conduct of the Institute of

Chartered Accountants of Nova Scotia, and to disclose in writing annually any matters which may be perceived to affect their independence and objectivity. Because the Office is approved for training students studying to become Chartered Accountants, it is subject to periodic reviews by the Institute to ensure it is complying with applicable standards and codes. It also arranges to have other legislative audit offices perform reviews of various audits performed by the Office.

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## TYPES OF AUDITS

The primary responsibility of the Office is to conduct audits in accordance with mandates of the Auditor General Act, and to report the results of these audits to the House of Assembly. The Auditor General can, in summary, audit organizations owned or controlled by government or which spend or receive public funds, and persons or organizations in receipt of financial assistance from government. The Office classifies its audits into four categories:

- **Attest** - examining financial or other performance reports (e.g., annual financial statements) prepared by government and government organizations, and providing an opinion on fairness of presentation and compliance with generally accepted accounting principles, if applicable.
- **Internal control** - examining and reporting on systems and structures in place to protect public assets and revenues, and to control expenditure of public funds and use of public property.
- **Compliance** - assessing whether government programs and spending are in compliance with legislation, regulations and government policy.
- **Economy, efficiency and effectiveness** - assessing whether government organizations, programs, projects and processes give due regard to economy, efficiency and effectiveness in the expenditure and collection of public money and use of public property.

Audit assignments may address one of these types, or combine two or more. Assignments that include more than attest objectives are referred to as broad scope assignments by the Office. In addition to reporting to the House of Assembly, the Office provides advice and recommendations to government organizations to help them better manage, control and account for public resources.

Due to the number of financial statement audits that must be performed by the Office during May and June each year, the Office contracts with private sector accounting firms to help meet audit requirements. In such cases, the accounting firms perform the audit for and report to the Auditor General. The Auditor General reviews and relies on the work of the accounting firms in the provision of his opinions on financial statements.

Most of the Office's non-discretionary audits are prescribed by legislation. Discretionary audits - those not mandated by legislation or occurring on an annual basis - are selected by the Office based on an analysis of government operations that considers factors such as risk of

significant problems in the area, materiality of revenues or expenditures, significance to the public, strength of controls, and known audit issues. The Auditor General Act (Section 15) also provides for situations where audits are requested by government. In such cases, the Auditor General is authorized to request that additional funding be provided for the audit, and can refuse an audit if, in his opinion, the assignment would unduly interfere with other work being performed by the Office.

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# 4

## 2005 REPORT ON PERFORMANCE

### INTRODUCTION

This Report is intended to help fulfill the responsibilities of the Office of the Auditor General to account for the expenditure of funds entrusted to it by the House of Assembly and to report on the achievement of the mandates provided in the Auditor General Act.

The following sections examine the financial and non-financial performance of the Office. The Report discusses achievements and progress of the Office related to the goals and priorities presented in its business plan. It presents the expenses and recoveries of the Office for its fiscal year ended March 31, 2005 and compares them to the budget prepared for this period. It also presents a number of outcomes, performance measures and performance results that the Office uses to gauge its progress in the accomplishment of its mandate and goals.

The Report shows that the Office had several accomplishments during 2005 and continues to serve the Members of the Legislature in helping them to hold government accountable for its stewardship of public funds. However, it also indicates that there are areas in which improvements are required.

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### ACCOMPLISHMENTS

The following is a summary of accomplishments during 2005.

- The Office fulfilled a commitment to begin regular, systematic follow-up of recommendations provided in the course of audit and review engagements. In its December 2005 Report, the Office reported on government's progress in addressing recommendations from the 2002 Report of the Auditor General.
- The Office performed twenty attest audits for the year ended March 31, 2005. Of these, nine were contracted out to private sector firms.
- Nine broad scope audits were performed and reported upon in the two Reports tabled by the Office in 2005.
- The audit of the government's March 31, 2005 consolidated financial statements was completed in time for the statements to be issued before the September 30 statutory deadline.
- The Office made significant progress in implementing new quality assurance and control standards of the Canadian Institute of Chartered Accountants. Selected assurance engagements were subject to quality reviews and the Office made progress in the preparation of a quality assurance and control manual.
- The largest annual assignment performed by the Office – the audit of the

government's consolidated financial statements – was subject to a post-completion quality review by staff of the Office of the Auditor General of Alberta (see page 8 under Goal II)

- Two staff members of the Office were successful in passing the Uniform Final Examinations required to obtain the Chartered Accountant designation.
- The Office invited certain staff of government departments and other legislative audit offices in the Atlantic Provinces to attend two professional development seminars conducted for the Office.

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## PROGRESS TOWARDS GOALS AND PRIORITIES

A summary of progress against the six goals and related priorities outlined in the 2005 Business Plan of the Office, released on March 8, 2005, is presented below.

### Goal I

To perform audits of high relevance to the Office's mandates and the needs of the House of Assembly.

- Perform the assurance assignments planned for calendar year 2005.

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**Status – Partially Met:** All but one financial statement audit were completed. One financial statement audit was not done because the entity became inactive. Ten discretionary audits were completed. Four discretionary audits were still in progress at the end of 2005, and four others were deferred to 2006. One was cancelled because risk factors leading to the need for an audit were resolved.

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- Focus efforts on specific program areas (as opposed to higher-level departmental and government-wide matters), and perform work that more closely addresses the core mandates of the Office (e.g., stewardship of public money, internal control, efficiency and economy, and compliance with legislation).

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**Status – In Progress:** The Office started in 2005 to focus its broad scope audits on specific program areas and perform work more directly associated with its core mandates.

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- Increase use of information technology to analyze auditee electronic data to determine whether there are anomalies that should be examined.

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**Status - In Progress:** The Office is making greater use of information technology to analyze auditee data in the planning and conduct of audits. There is a need for additional staff education and methodology development in this area.

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- Use more thorough risk analysis in the development of the scope of individual assignments.
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**Status – Planning Stage:** Staff has had discussions on this topic and a seminar has been given to staff, but we have yet to develop policies and procedures.

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- Increase attention to the management of major government projects.
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**Status – In Progress:** The Office obtained project management training for all professional staff and undertook assignments which examined the government's management of significant projects.

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- Conduct and report upon the follow up of audits included in the 2002 Report of the Auditor General.
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**Status - Completed:** The December 2005 Report of the Auditor General reported on the follow-up of audit recommendations included in the 2002 Report.

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## Goal II

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

- Arrange with a member of the Canadian Council of Legislative Auditors for a peer review of a selection of attest assignments performed by the Office.
- 

**Status – Completed:** The Office arranged for the Office of the Auditor General of Alberta to conduct a peer review of the Nova Scotia Office of the Auditor General's audit of government's consolidated financial statements. The review concluded that the Office conducted the audit in compliance with generally accepted auditing standards. There were recommendations for improvement, especially related to audit documentation.

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- Implement new quality assurance and control standards issued by the Canadian Institute of Chartered Accountants.
- 

**Status – In Progress:** We made significant progress in developing Office policies and procedures that meet the new national standards, and we conducted quality control reviews on selected audits during 2005. A Quality Assurance and Control Manual will be completed in 2006 and all audits meeting criteria stipulated in the manual will be subject to quality control reviews. However, these new standards have also increased the resources required to do audits. If additional budget funds are not received by the Office, the new standards may result in fewer audits being done each year.

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### Goal 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 style and content of the Office's reporting to the House of Assembly on audits performed.
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**Status – No Progress to Date but Plan to Take Action:** The Office will examine various aspects of its communications during 2006, including its reporting to the House of Assembly on audits performed.

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- Prepare a plan to more widely communicate the results of specific audits that may be relevant to a broader audience of government departments and agencies.
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**Status – Planning Stage:** This is done sporadically at this time. It will be examined in greater detail during the communications review described above.

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### Goal IV

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

- Update and review the Office's training plan for any unmet professional development goals and arrange for appropriate training for the Office or selected staff members.

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**Status – In Progress:** The Office’s training plan has been reviewed and information is being collected to help identify training needs.

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- Implement new professional quality assurance and control standards to help ensure the independence and objectivity of the Office and its staff.
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**Status – Completed:** Quality assurance and control procedures which help to ensure the independence and objectivity of the Office and its staff have been implemented. These include changes to the annual staff independence representations and processes for mitigating the familiarity threat in performing audits.

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- Focus Office training efforts on changes in professional standards and emerging professional issues.
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**Status – In Progress:** As part of the Office’s development and implementation of new quality assurance and control standards, staff assigned to this function has been made responsible for identifying changes and emerging issues in national accounting and auditing standards, and for recommending topics for staff training.

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## Goal V

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

- Complete audits as planned with respect to their scope, time budget and target dates.
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**Status – Not Met:** A number of audits conducted in 2005 were completed over budget and behind target. This continues to be a concern and efforts will be made in 2006 to study and identify ways to improve the planning, conduct and management of assurance assignments.

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- Monitor the government’s contracting of audits and consulting assignments to better leverage our efforts to promote constructive change.
- 

**Status – Completed:** The Office continued to identify and monitor government audit and consulting assignments. Such government contracts are identified and followed up during



audits and may be used to help form opinions on the operations of the audit entity. In other cases, such contracts are identified prior to audits and may be used to select and decide on the scope of audit assignments performed by the Office.

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- Monitor for opportunities to perform audits jointly with other legislative audit offices in order to decrease time and Office resources requires to research and plan for audits, and benefit from synergies of working with professionals from other jurisdictions.
- 

**Status – In Progress:** The Office participated with the Canadian Council of Legislative Auditors and its committees in the identification of joint audit opportunities during the year. Joint audits in health care and other areas are being explored at this time. A collaborative audit of utilization and acquisition of certain types of medical equipment will be conducted in 2006.

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## Goal VI

To measure and report the Office's performance to the House of Assembly.

- Meet with the Public Accounts Committee to obtain its thoughts on how the Office can be of value to the Committee in its efforts to help keep the government accountable for its stewardship over public money.
- 

**Status – In Progress:** The Office meets with the PAC on a regular basis to discuss audits, and meets annually to discuss the performance and plans of the Office. Opportunity is given to Committee members for input into the operations of the Office. However, more can be done to encourage such dialogue while, at the same time, preserving the professional independence of the Office.

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- Monitor performance reporting of other legislative audit offices for best practices that can be employed by the Office.
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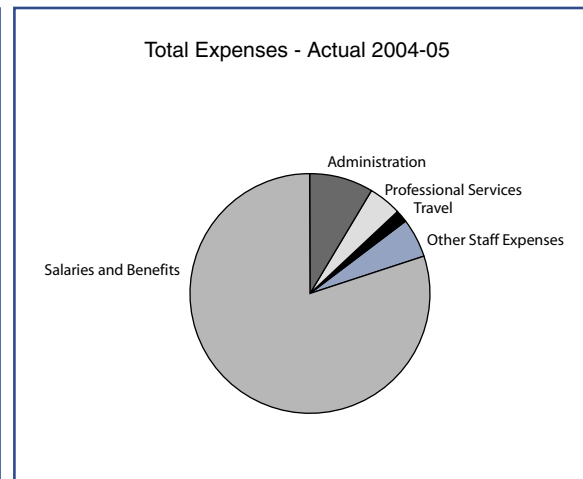
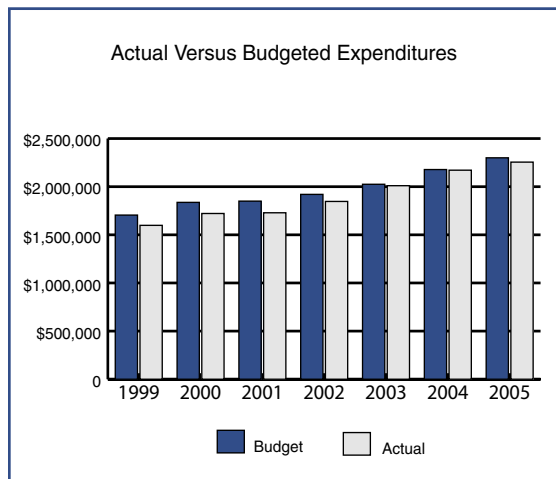
**Status – In Progress:** The Office participates with the Canadian Council of Legislative Auditors in efforts relating to reporting on performance. In addition, the Office monitors the reporting of other legislative audit offices for examples of best practices in performance reporting.

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## FINANCIAL RESULTS

### OFFICE OF THE AUDITOR GENERAL OF NOVA SCOTIA NET EXPENSES FOR THE YEAR ENDED

|                              | March 31,<br>2005 Actual | March 31,<br>2005 Budget | Variance<br>Under (Over)<br>Budget | % Variance<br>Under<br>(Over)<br>Budget |
|------------------------------|--------------------------|--------------------------|------------------------------------|---|
| Salaries and benefits        | \$ 1,899,586             | \$ 1,966,900             | \$ 67,314                          | 3.4                                     |
| Other staff expenses         | 120,540                  | 78,000                   | (42,540)                           | (54.5)                                  |
| Travel                       | 41,357                   | 47,000                   | 5,643                              | 12.0                                    |
| Professional services        | 105,646                  | 180,200                  | 74,554                             | 41.4                                    |
| Office administration        | 201,089                  | 160,400                  | (40,689)                           | (25.4)                                  |
| <b>Total Expenses</b>        | <b>2,368,218</b>         | <b>2,432,500</b>         | <b>64,282</b>                      | <b>2.6</b>                              |
| Recoveries – fees for audits | 113,015                  | 132,500                  | (19,485)                           | (14.7)                                  |
| <b>Net Expenses</b>          | <b>\$ 2,255,203</b>      | <b>\$ 2,300,000</b>      | <b>\$ 44,797</b>                   | <b>1.9</b>                              |



The Office's budget and expenses continue to increase each year, principally due to rising salaries in response to cost of living and individual employee performance adjustments. Salaries and benefits are the Office's largest expense, representing 84% of net expenses in 2004-05.

The Office spent \$44,797 (1.9%) less than its budget, which continued its long-standing history of meeting its budgets. Salaries and benefits were under-spent by \$67,314 (3.4%) due to staff turn-over and recoveries from government for certain salary increases in 2004-05. Other staff expenses were greater than budgeted by \$42,540 (54.5%) due to the provision of

a number of professional development sessions to staff during the year. Professional service expenses and recoveries were under budget because two financial statement audits contracted to private firms were erroneously billed directly by the firm to the auditee, causing these costs and related recoveries to bypass the Office's accounts. Administration expenses were \$40,689 (25.4%) over budget due to the purchase of information technology equipment and software.

## OUTCOME MEASURES

The Office of the Auditor General monitors four categories of performance: Client Services, Resource Allocation, Audit Efficiency and Human Resources. For each of these areas, one or more performance indicators have been identified and systems of measurement have been developed.

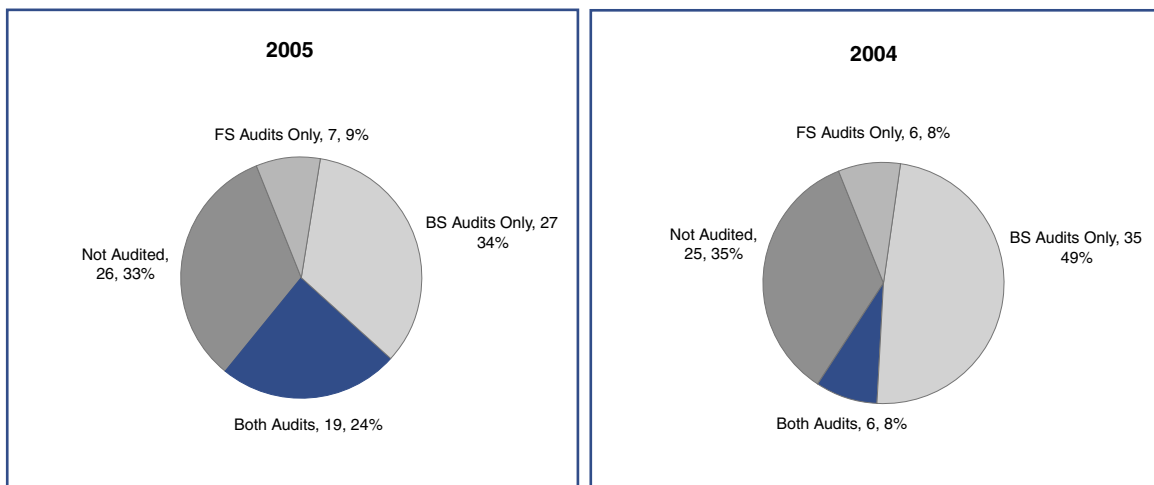
### Client Services

#### 1. Entities Audited

*Definition* - Number of major entities (organizations with annual revenues or expenses over \$5 million included in the Office's audit mandate) in which either a financial statement or broad scope audit was performed within the last five years. Financial statement audits include audits performed by the Office, as well as those performed on behalf of the Office under contract with a private sector firm.

*What does it tell us?* Whether the Office is able to achieve its mandate by performing audits in all areas of significant public expenditure within a reasonable span of time.

*Where are we now?* In the last five years, 67% of major government organizations have been audited by the Office of the Auditor General. Last year's reported measure was 65%. The number of audits the Office performs is directly linked to the size of its staff. Significant future improvement in this measure will require a larger budget for the Office.



Where do we want to be? To continually reduce the number of significant audit entities not audited or reviewed.

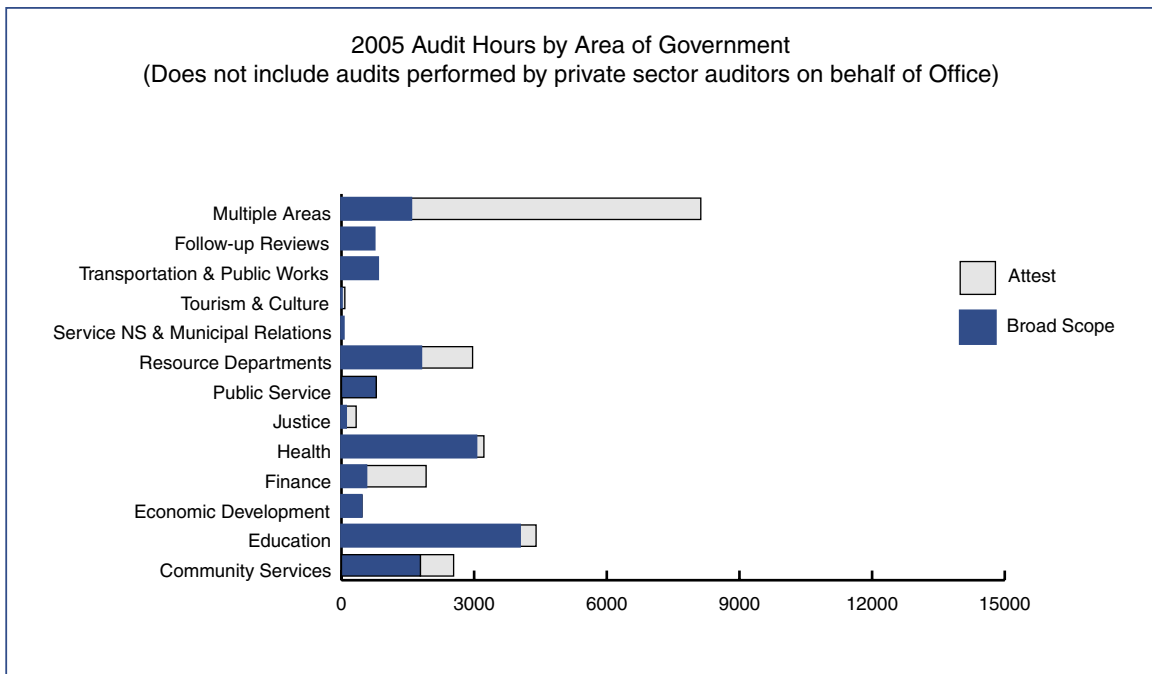
## 2. Distribution of Audit Hours

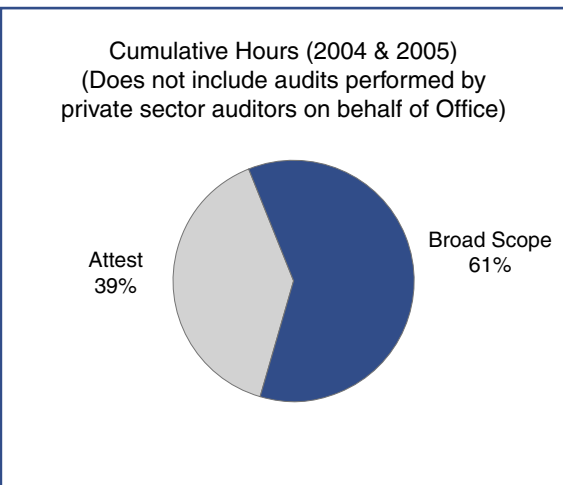
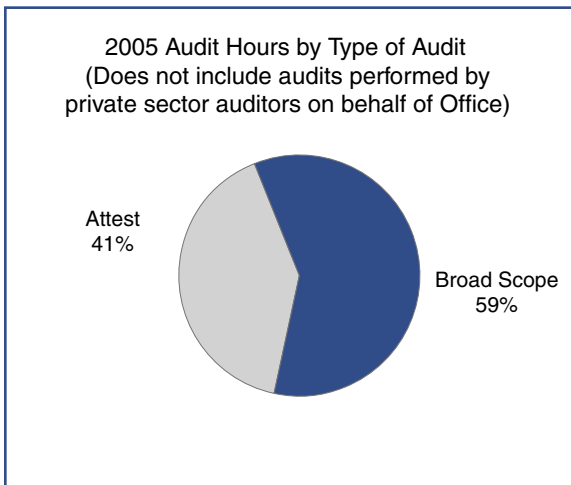
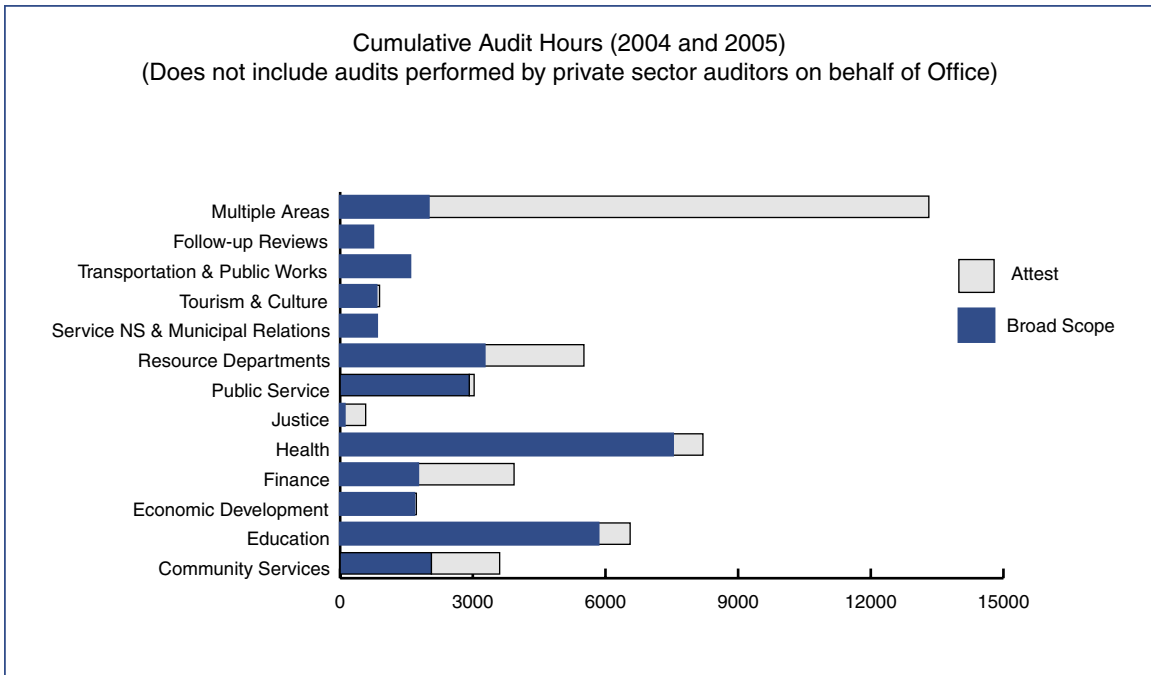
Definition – Allocation of audit hours among areas of government, and between the two major types of audits performed, both for the current year (2005) and cumulative since year of first measurement (2004).

What does it tell us? Whether the Office is expending resources in areas of higher significance and relevance.

Where are we now? Audit hours in 2005 were expended in areas of significant public expenditure and interest. There was an appropriate mix of attest and broad scope auditing.

Where do we want to be? To continue to allocate audit efforts in areas of high public expenditure and interest, and to maintain the current allocation of audit hours between attest and broad scope assignments.





**3. Release of the Report of the Auditor General**

*Definition* - The Office's goal is to issue two reports summarizing the results of audits to the House of Assembly each year. The annual report should be tabled by December 31, the deadline established by the Auditor General Act.

*What does it tell us?* Whether the Office provides timely reporting to the House of Assembly on the results of its audit work.

*Where are we now?* The 2005 Annual Report of the Auditor General was tabled in the House of Assembly on January 11, 2006. The Report was prepared in time for tabling in the last weeks of December, but was deferred to avoid the holiday season. An additional Report was tabled on June 29, 2005. There are no legislated deadlines for additional reports.

Where do we want to be? To issue two reports summarizing the results of audits to the House of Assembly each year, and meet the legislated reporting deadline for the annual report specified in the Auditor General Act.

#### 4. **Audit Hours**

*Definition* – The hours spent as compared to hours budgeted for financial statement audits.

*What does it tell us?* Whether the Office is conducting financial statement audits in planned amounts of time.

*Where are we now?* Financial statement audits were conducted in 10,312 hours, 22% over the 8,424 hours budgeted for the assignments. This represents a negative trend in time performance compared to 12% over budget for 2004. There are a number of factors which potentially contribute to time overages, including significant audit issues being identified after the planning stage, inadequate readiness or response from the entity being audited, and inefficiencies in our audit processes. We will attempt to improve our project management practices and determine whether there are ways to improve auditee readiness and response times.

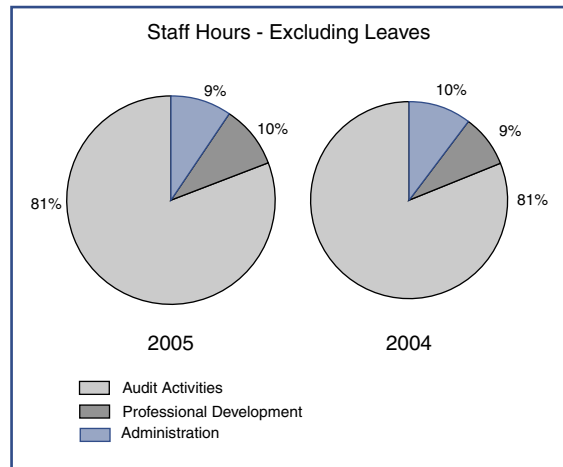
*Where do we want to be?* Our goal is to have financial statement audits completed within budget.

### **Resource Allocation**

#### 5. **Staff Hours**

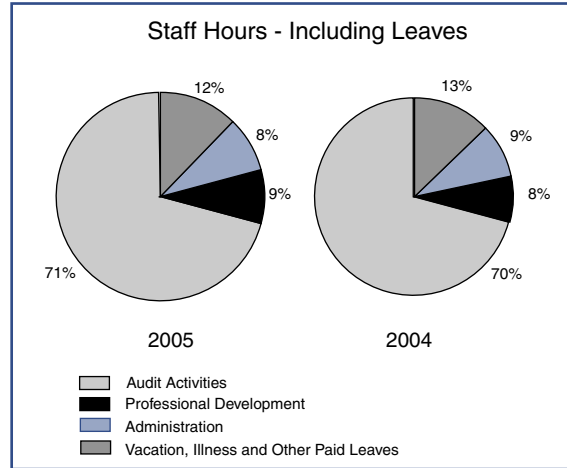
*Definition* - Staff hours committed to various audit and administrative tasks during the year ended December 31, 2005. (This indicator does not include time spent by private firms contracted by the Office to conduct certain financial statement audits.)

*What does it tell us?* The objective of the Office is to maximize the number of hours committed to audit activities, while supporting participation in non-audit activities conducive to professional development and the effective and efficient administration of the Office.



Where are we now? The percentage of hours committed to audit work in 2005 remained consistent with that in 2004.

Where do we want to be? To spend in the range of 80% to 85% of available time, **excluding** paid leaves, on audit activities.



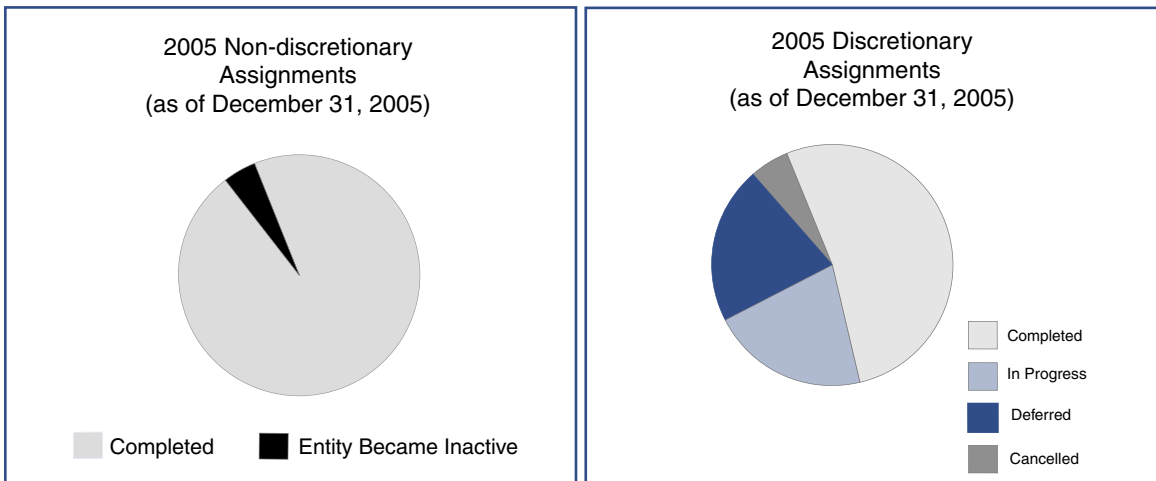
## Audit Efficiency

### 6. Planned Audits Completed

Definition - Number of discretionary and non-discretionary assurance assignments included in the Office's 2005 business plan that were completed during the year.

What did it tell us? Whether the Office performed all of the assurance assignments it planned to perform.

Where are we now? All non-discretionary assignments were completed, with one exception. One financial statement audit was not done because the entity became inactive. Ten discretionary audits were completed. Four discretionary audits were still in progress at the end of 2005, and four others were deferred to 2006. One was cancelled because of risk factors leading to the need for an audit were resolved.

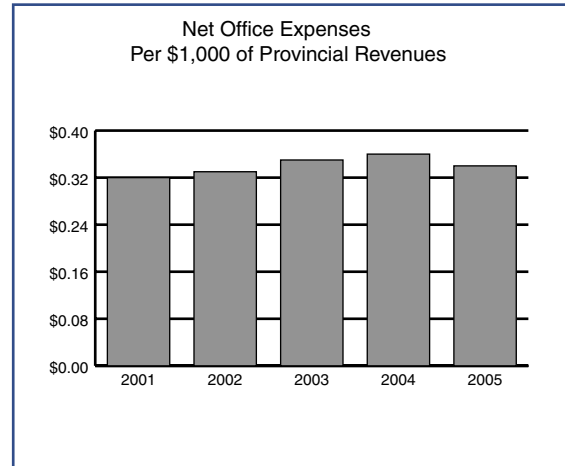
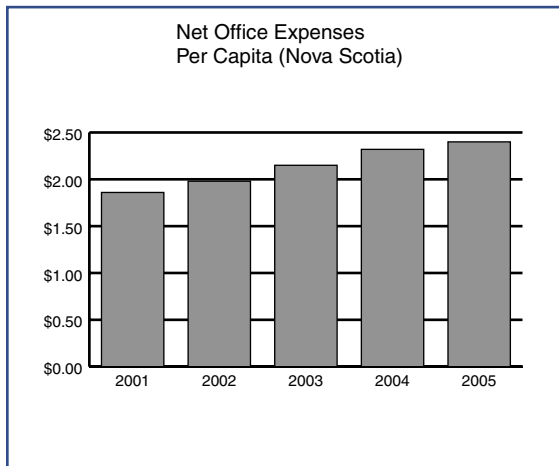


Where do we want to be? There will always be circumstances which change the Office's audit plans during the year. Our goal is to perform each assurance assignment on our plan unless another assignment of higher priority is substituted or there are appropriate reasons for not conducting an assignment.

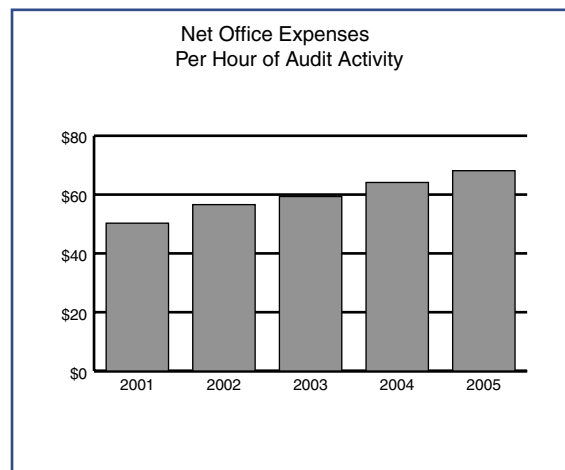
## 7. Miscellaneous Financial Measures

*Definition* - For the fiscal year ended March 31, 2005, net expenses of the Office of the Auditor General are shown in relation to three variables (on a per capita basis, per \$1,000 of Provincial revenues, and per hour of audit activity).

*What does it tell us?* This information should help assess trends in the Office's expenses which may indicate changes in audit efficiency.



*Where are we now?* Net Office expenses per capita (Nova Scotia) increased to \$2.40 (+3%). Expenses per \$1,000 of government revenues decreased to \$0.34 (-6%). Expenses per hour of auditing rose to \$68.12 (+6%). Each indicator was impacted by a 4% increase in net expenses over the prior year, mostly due to increases in salary and professional development costs. Government revenues increased by 9% in 2004-05, causing the ratio of Office expenses to government revenues to decline.



*Where do we want to be?* We will continue to monitor Office expenditures to ensure that the cost to taxpayers is justified.



## Human Resources

### 8. Professional Development and Support

*Definition* - Days of professional development time and time spent on supporting professional organizations, per staff member, for the year ended December 31, 2005. Data used in this measure does not include the time of accounting students spent on professional accounting programs because the number of students in such programs in any given year may vary and their study time would not be a meaningful indicator of ongoing professional development for the majority of staff.

*What does it tell us?* Maintaining the quality of audits requires auditors to stay current in professional standards and emerging issues.

*Where are we now?* 2005: 15 days. 2004: 14 days.

*Where do we want to be?* 10 to 15 days per year.

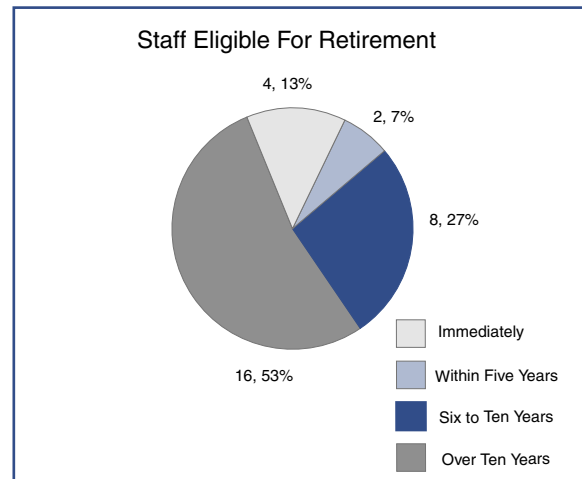
### 9. Staff Turnover

*Definition* - The number of staff leaving or being hired by the Office during an extended period, and whether staff leaving the Office go on to careers elsewhere in the Provincial government.

*What does it tell us?* In order to meet its auditing goals, the Office must maintain an adequate complement and continuity of professional and support staff. Some turnover to facilitate career progression is desirable, but it is important that net turnover not be negative over the longer term. It is of public value to retain within the Provincial government the training and experience of staff leaving the Office, so the number of staff going to positions in government is important.

*Where are we now?* Two staff members left the Office during 2005, and four new members joined. One of the two members who left the Office went to a position at the Workers Compensation Board of Nova Scotia.

As of December 31, 2005, 14 (47%) of the Office's staff are eligible to retire in the next ten years. At the manager level and above, five are eligible to retire within five years, representing 46% of total staff at those levels.



Where do we want to be? To maintain staff at full complement, but to have a rate of turnover that will allow for healthy career development for staff, whether with the Office of the Auditor General or within the Provincial government.

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# I

## STAFF OF THE OFFICE OF THE AUDITOR GENERAL

AS AT DECEMBER 31, 2005

|   |  |                             |
|---|--|-----------------------------|
| <b>Auditor General</b>                            | Roy Salmon, FCA, CIA (retired; Jacques Lapointe, CA•CIA appointed March 1, 2006) |                             |
| <b>Deputy Auditor General</b>                     | Claude Carter, CA•CISA, PMP  |                             |
| <b>Assistant Auditors General</b>                 | Alan Horgan, CA  | Elaine Morash, CA           |
| <b>Audit Managers</b>                             | Dianne Chiasson, CGA, PMP  | Roger Lintaman, CA          |
|   | Angela Cook, CMA   | Scott Messervey, CA         |
|   | Ronald Edmonds, CGA, CISA  | Terry Spicer, CMA           |
|   | Stephen Lacusta, CA  |                             |
| <b>Audit Supervisors</b>                          | Andrew Atherton, CA  | Joesph Lappin, CA•CISA, LLB |
|   | Evangeline Colman-Sadd, CA   | Paul Rowe, CA, PMP          |
|   | Anne-Marie Fraser, CMA   | Ann Ryan, CA                |
|   | Douglas Hendsbee, CA   | Janet White, CA             |
| <b>Senior Audit Officers</b>                      | Duncan Allen   | Brent Mullins               |
|   | Todd Logan   |                             |
| <b>Information (IT) Support<br/>Audit Officer</b> | Linda MacKay, CISA   |                             |
| <b>Student Auditors</b>                           | Adam Harding   | Christine Ross              |
|   | Anthony Robinson   | Nick Smerek                 |
| <b>Support Staff</b>                              | Dawn Helgason  | Darleen Langille            |
|   | Kristen Keirstead  |                             |

# II

## SALARY RANGES

AS AT DECEMBER 31, 2005

| Position                       | Number | Salary Range <sup>1</sup> |
|--------------------------------|--------|---------------------------|
| Senior Management              | 4      | \$97,750 - \$139,932      |
| Audit Managers and Supervisors | 15     | \$54,887 - \$ 80,304      |
| Senior and IT Audit Officers   | 4      | \$45,064 - \$ 48,281      |
| Student Auditors               | 4      | \$33,450 - \$ 35,540      |
| Support Staff                  | 3      | \$28,176 - \$ 44,321      |

Note 1 - Represents the range of salaries of incumbents in these employment categories as of December 31, 2005, as well as re-earnable performance pay paid during the year. The figures do not include employer's cost of benefits, which average approximately 17% of gross salary.

Note 2 - Salaries for individual staff members are reported in the Province of Nova Scotia Supplement to the Public Accounts.

## 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, as well as the greater outcome to which it wishes to contribute.

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

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

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## 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 requires approval of the House of Assembly for the appointment of an Auditor General, and vests sole responsibility for removal of the Auditor General in the House. This protection provides appropriate independence from government.

*Organization* - The Office is located in Halifax and employs 31 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 I to the business plan.

*Major Challenges* - The major challenges faced by the Office are summarized as follows:

- 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, public administration, auditing of compliance with legislation and regulations, project management), 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 and skilled professional staff

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## STRATEGIC GOALS

As a result of strategic planning, the Office has identified six goals.

- I. To perform audits of high relevance to the Office's mandates and the needs of the House of Assembly.
- 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.

The Office intends to update its strategic plan during 2006-07.

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## 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 stewardship of public funds.
- Provide advice to government managers to help them better manage and account for their performance.

These two areas are fully integrated as both are features of all audits performed by the Office. Thus, the areas cannot be separated for planning purposes and this plan does not differentiate between them when discussing goals, priorities or resource management.

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## PRIORITIES

- I. To perform audits of high relevance to the Office's mandate and the needs of the House of Assembly.
- Perform assurance assignments in the priority areas of systems and controls, procurement management, project management, human resource policies and practices, and resource utilization. (See Appendix II for a listing of all scheduled assurance engagements.)
  - Conduct long-range, strategic planning relating to all operations of the Office, including auditing, information technology and human resources.
  - Develop a process to apply more thorough risk analysis in the selection of audits and the development of the scope of individual assignments.
- II. Through the use of knowledgeable staff and best professional practices, ensure the Office's work meets or exceeds relevant professional standards.
- Complete implementation of new quality assurance and control standards issued by the Canadian Institute of Chartered Accountants.
  - Implement recommendations of practice reviews performed on Office.
  - Expand role of the Office's Senior Management Advisory Committee to strengthen the monitoring of progress of assurance assignments.
  - As part of 2006 strategic planning exercises, examine the value of having an

external advisory committee for the Office, and possibly establishing advisory committees for individual assignments.

- 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.
- Prepare and implement a communications plan for the Office which addresses the timing, content and form of communications with the House of Assembly, public, media, government officials and other stakeholders.
- IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.
- Based on strategic plan, identify core competencies and skill sets required by staff to fulfill the mandates of the Office.
  - Based on the required competencies, review and update the Office's training plan for any unmet professional development requirements and arrange for appropriate training for the Office or selected staff members.
  - Work with the Canadian Council of Legislative Auditors to establish a common training plan for member offices.
  - Arrange appropriate training for staff related to changing audit standards.
- V. To ensure the Office manages its resources with due regard to economy and efficiency.
- Review and implement best practices in project management to aid in efficient and effective planning, conduct and monitoring of assurance assignments.
  - Expand role of the Office's Senior Management Advisory Committee to strengthen the monitoring of progress of assurance assignments.
- VI. To measure and report the Office's performance to the House of Assembly.
- The Office's performance report and business plan are now prepared on a calendar year basis. We intend to change these to a fiscal year basis, and issue the first fiscal year performance report and business plan by June 30, 2007.

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## BUDGET CONTEXT

The Office is funded by an annual appropriation of the House of Assembly, as well as from the billing of professional services in certain situations. The following shows the actual, budgeted and forecasted expenses, recoveries and funded staff positions of the Office for the years 2004-05 to 2006-07.



**OFFICE OF THE AUDITOR GENERAL OF NOVA SCOTIA  
NET EXPENSES AND STAFFING**

|                              | <b>Actual<br/>2004-05<br/>(Note 1)</b> | <b>Budget<br/>2005-06</b> | <b>Forecast<br/>2005-06<br/>(Note 2)</b> | <b>Preliminary<br/>Budget<br/>2006-07</b> |
|------------------------------|--|---------------------------|--|---|
| Salaries and benefits        | \$ 1,899,586                           | \$ 2,299,300              | \$ 2,169,100                             | \$ 2,426,800                              |
| Other staff expenses         | 120,540                                | 100,000                   | 90,000                                   | 104,000                                   |
| Travel                       | 41,357                                 | 40,000                    | 50,000                                   | 48,000                                    |
| Professional services        | 105,646                                | 155,800                   | 208,000                                  | 235,100                                   |
| Office administration        | 201,089                                | 167,700                   | 270,100                                  | 182,100                                   |
| Total Expenses               | 2,368,218                              | 2,762,800                 | 2,787,200                                | 2,996,000                                 |
| Recoveries                   | 113,015                                | 105,800                   | 134,800                                  | 105,000                                   |
| Net Expenses                 | \$ 2,255,203                           | \$ 2,657,000              | \$ 2,652,400                             | \$ 2,891,000                              |
| Staff - Full Time Equivalent | 27.6                                   | 30.6                      | 29.2                                     | 32.6                                      |

Note 1 - Budget for the year ended March 31, 2005 is presented on page 12 of this Report.

Note 2 - As of March 9, 2006.

With these resources, the Office will audit the financial statements and review the revenue estimates of the Province of Nova Scotia, as well as audit the financial statements of 17 other government organizations. In addition, it will perform 17 broad scope assignments in 2006.

The Office's major expense is salaries and benefits, which represents approximately 82% of the Office's forecasted net expenses for 2005-06. All but three staff members are directly involved in providing audit services. Office administration (including office rent) is forecasted to be 10% of net expenses. Forecasted 2005-06 office administration expenses include unbudgeted information technology equipment expenses, as well as unbudgeted relocation costs relating to the appointment of a new Auditor General.

The budget for 2005-06 presented above is greater than the preliminary 2005-06 budget included in last year's business plan. Subsequent to the publication of the Office's 2005 business plan, government placed an additional \$100,000 in the 2005-06 Provincial Estimates for the Office, which was subsequently approved by the House of Assembly.

The preliminary budget for 2006-07 presented above is based on a budget target provided by Treasury and Policy Board to the Office on March 15, 2006. Recent and impending changes in Canadian generally accepted auditing standards are significantly expanding required quality control processes and procedures. In addition, auditing standards are requiring greater attention to risk of fraud, more thorough understanding of the nature and operations of the entity being audited, and expanded evaluation and testing of internal controls. These changes will significantly increase the time required to perform audits, and accordingly the number of staff and amount of other resources needed by the Office to perform the number of audits performed in previous years. The Office estimated that it would require an additional \$205,500 to address these new requirements. Treasury and Policy Board included \$150,000 in the Office's budget target for these operational pressures, and indicated it would fully meet them in the following year (2007-08).

The final approved budget for 2006-07 may differ from the figures above when government makes its final budget decisions in the spring of 2006 and the Estimates are approved by the House of Assembly.

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## LINKAGES / PARTNERSHIPS

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

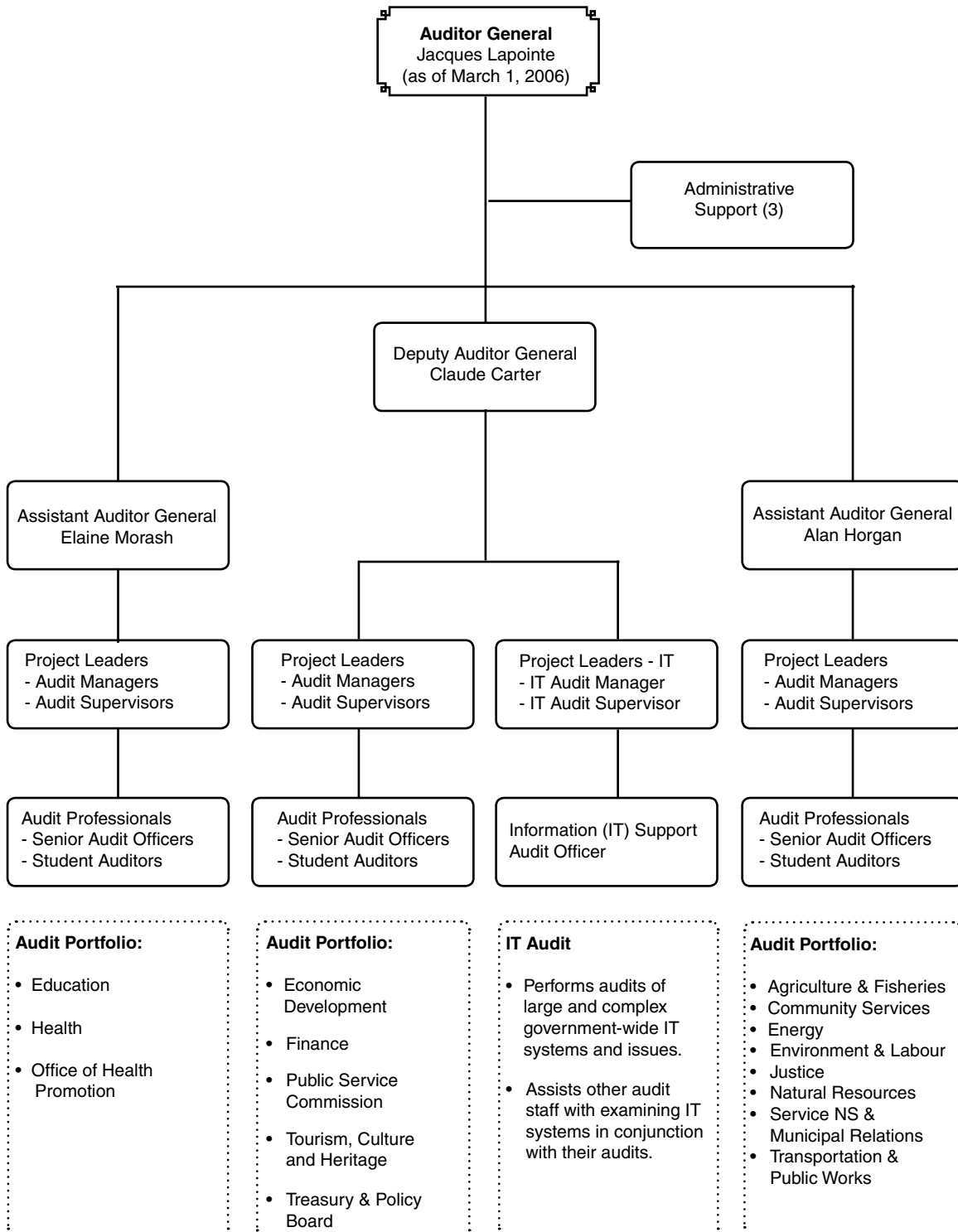
- The Office occasionally works with other legislative audit offices (i.e., Auditors General) in the performance of audits of entities which do business in multiple jurisdictions, and in cases where there are similar government operations in various jurisdictions and there would be efficiency gained from audit offices coming together to plan or conduct 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 subject to oversight by the Office, and audit opinions expressed are those of the Auditor General.
- Accountants, consultants and specialists are occasionally hired on a contract basis to provide training to the Office, and to assist with audit assignments performed.
- 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 its efforts to improve public sector accountability, governance and management.

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

# I

# ORGANIZATION CHART

## OFFICE OF THE AUDITOR GENERAL



Note: Audit portfolios above also include all provincial public sector agencies and commissions, as well as transfer payment recipients related to the specific government departments.

# II

## 2006 PLANNED AUDITS

### Annual Audits and Reviews

| <b>Non-discretionary Audits and Reviews</b>                     | <b>Type of Assignment</b> |
|---|---------------------------|
| Accounts established under the Members' Retiring Allowances Act | Financial Statement Audit |
| Additional appropriations                                       | Compilation               |
| Atlantic Provinces Special Education Authority                  | Financial Statement Audit |
| Cash and other losses   | Compilation               |
| Fisheries and Aquaculture Loan Board                            | Financial Statement Audit |
| Government's Consolidated Financial Statements                  | Financial Statement Audit |
| Government's Revenue Estimates                                  | Review                    |
| Nova Scotia Farm Loan Board                                     | Financial Statement Audit |
| Nova Scotia Gaming Foundation                                   | Financial Statement Audit |
| Nova Scotia Primary Forest Products Marketing Board             | Financial Statement Audit |
| Nova Scotia Talent Trust  | Financial Statement Audit |
| Public Trustee Trust Funds                                      | Financial Statement Audit |
| SEC Filing  | Review                    |

| <b>Audits Contracted with Public Accounting Firms</b> | <b>Type of Assignment</b> |
|---|---------------------------|
| Industrial Expansion Fund                             | Financial Statement Audit |
| Nova Scotia Crop and Livestock Insurance Commission   | Financial Statement Audit |
| Nova Scotia Gaming Corporation                        | Financial Statement Audit |
| Nova Scotia Harness Racing Incorporated               | Financial Statement Audit |
| Nova Scotia Innovation Corporation                    | Financial Statement Audit |
| Nova Scotia Legal Aid Commission                      | Financial Statement Audit |
| Nova Scotia Teachers' Pension Fund                    | Financial Statement Audit |
| Public Service Superannuation Fund                    | Financial Statement Audit |
| Sydney Steel Corporation Superannuation Fund          | Financial Statement Audit |

## Discretionary Assignments

| To be Performed by Office of the Auditor General  | Type of Assignment |
|---|--------------------|
| Community Services – Information Technology Systems Controls                            | Broad Scope        |
| Education – Atlantic Provinces Special Education Authority                              | Broad Scope        |
| Education – Conseil scolaire acadien provincial   | Broad Scope        |
| Education – Strait Regional School Board  | Broad Scope        |
| e-Merge/SAP HR  | Broad Scope        |
| Environment and Labour – Gaming Regulations   | Broad Scope        |
| Follow-up of 2003 Recommendations   | Broad Scope        |
| Health – District Health Authorities (Colchester East Hants, Cumberland, Pictou County) | Broad Scope        |
| Health – Health Performance Indicators (if requested by Health)                         | Broad Scope        |
| Health – Medical Equipment (Capital Health and Cape Breton DHA)                         | Broad Scope        |
| Health – Payments to Physicians   | Broad Scope        |
| Justice – Correctional Services   | Broad Scope        |
| N.S. Liquor Corporation   | Broad Scope        |
| N.S. Research and Innovation Trust  | Broad Scope        |
| Natural Resources – Timber Forestry   | Broad Scope        |
| Public Service Commission   | Broad Scope        |
| Transportation and Public Works – Project Management                                    | Broad Scope        |

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Auditor General

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