

**Office of the
Auditor General of Canada**

Performance Report

**For the
period ending
31 March 2001**

Sheila Fraser, FCA
Auditor General of Canada

Honourable Paul Martin, P.C., MP
Minister of Finance

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We contributed to several improvements in government operations including the integrity of data in the Social Insurance Register and the Canadian Biodiversity Strategy.

We identified opportunities for saving several millions of dollars and for productivity increases.

We participated in 32 parliamentary committee hearings.

We produced 34 chapters covering topics from health and safety to Crown corporation governance.

We issued 9 environmental chapters covering topics from smog to greening of government operations.

We conducted 5 special examinations of Crown corporations including the Canadian Broadcasting Corporation.

We audited an aggregate of \$344 billion in government revenue and expenditure.

We examined over 100 financial statements of the Government of Canada, Crown corporations, other entities and territorial governments.

We published our first financial statements, prepared in accordance with generally accepted principles.

We focussed on several challenges including succession planning and audit technology and methodology improvements.

SECTION 1

Message from the Auditor General



I am pleased to present our 2001 *Performance Report*. In this document we report on our performance and look at whether we have or have not met the commitments in our 2000-01 *Report on Plans and Priorities*.

We experienced intense activity in 2000-01. We completed the audit plan presented in our *Report on Plans and Priorities* and delivered the final report of the former Auditor General. We issued over 100 opinions on the financial statements of the Government of Canada, Crown corporations, other entities, and territorial governments. We conducted five special examinations of Crown corporations and assessed government sustainable development strategies. Our value-for-money reports covered a wide-range of issues such as the environment, health and safety, immigration, and education of Aboriginal children. In addition, we identified opportunities for savings in government operations.

Our work resulted in a number of improvements to government operations. Our products raised a lot of interest from parliamentarians and the public. The number of chapters reviewed by the Standing Committee on Public Accounts and other committees and the growing number of requests for information received from the public attest to this interest.

We continued to improve our internal operations. For example, we revamped our risk assessment practices and implemented a new financial system. The publication of our first set of financial statements, prepared in accordance with generally accepted accounting principles, and the unqualified opinion of an independent auditor on these statements is a direct result of these efforts. Our financial statements will be an important tool in helping us to account for our performance and the use of our resources.

Measuring the impact of our audit work progressed last year. We identified several outcomes and are continuing to develop specific measures. We have included a condensed version of our performance measurement and reporting framework in this Report.

The achievement of this high-level of performance is the result of our staff's collective efforts at all levels. Our staff are the strength of the Office. They worked hard last year to complete our audit plan. I thank them all for their dedication and contribution.

Denis Desautels' mandate ended in 2000-01 and it was under his leadership that we achieved this high-level of performance. We all owe him gratitude for making our Office such a wonderful and professional place to work and for making an important contribution to Canada.

The next few years will be challenging. Canadians are concerned with several issues such as health, security, environment, and employment. They also want an effective public service. Departments and agencies are adopting new financial systems and accrual accounting and introducing their own financial statements. We face continuous change in professional practices. A significant portion of Office workforce is nearing retirement; therefore, we must ensure continuity in our management and audit capacity.

We have taken several measures to respond to these challenges and improve our performance. We are reviewing our audit practice and methodology and pursuing several initiatives to strengthen our work force. We are considering other initiatives to respond to challenges in the next decade.

I am proud to have been appointed Auditor General of Canada. Our Office enjoys a solid reputation in Canada and abroad. Our credibility and the trust the public puts in our work are the result of our sustained efforts to produce useful reports. I intend to maintain this track record. I can assure Canadians that I will strive to maintain our credibility and tradition of excellence and provide the quality of information that Parliament and the public expect from the Office.



Sheila Fraser, FCA
Auditor General of Canada



MANAGEMENT REPRESENTATION

Report on Performance 2000-01

I submit, for tabling in Parliament, the 2000-01 Performance Report for the Office of the Auditor General of Canada.

To the best of my knowledge the information

- accurately portrays the Office's performance accomplishments;
- is consistent with the disclosure principles contained in the *Guide to Preparing the 2001 Performance Report*;
- is comprehensive and accurate; and
- is based on sound underlying Office information and management systems.

I am satisfied as to the quality assurance processes and procedures used for the Performance Report's production.

The reporting structure, on which this document is based, has been approved by Treasury Board ministers and is the basis for accountability for the results achieved with the resources and authorities provided.



Michael J. McLaughlin, CMA
Deputy Auditor General and
Senior Financial Officer
1 October 2001

SECTION 2

Office Performance

Context and Background

VISION, MISSION, AND STRATEGIC OUTCOME

We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest, and productive government that reflects a commitment to sustainable development.

Our mission is to conduct independent audits and examinations that provide objective information, advice and assurance to Parliament and Canadians. We promote accountability and best practices in government operations.

2.1 The Office of the Auditor General of Canada conducts independent audits and examinations of federal government operations. These audits provide members of Parliament with objective information to help them examine the government's activities and hold it to account for its stewardship of public funds.

2.2 The Commissioner of the Environment and Sustainable Development assesses departments' and agencies' sustainable development strategies and monitors ministers' replies to petitions submitted by Canadians concerning the environment. The Commissioner, on behalf of the Auditor General, reports annually to the House of Commons on anything related to the environment and sustainable development that she considers should be brought to the House's attention.

2.3 Our mandate is very broad. It requires us to report on the economy, efficiency, effectiveness, and environmental effects of government operations. We can cover almost any topic across the government: health, culture, the environment, finance, agriculture, transportation, and scientific research, to name a few. To improve the focus of our audit work, the Office set and published five priorities in 1997. These priorities place special emphasis on improving the government's financial position, accountability, financial management, public service renewal, and the environment. They reflect our traditional role of helping Parliament to hold the government accountable for its actions. They also support the government's agenda to improve Canada's financial condition and public service management, and they reflect our new responsibilities for the environment.

2.4 Our audit universe includes the following:

- about 70 federal government departments, agencies, and departmental corporations ranging from small boards to large, complex organizations whose activities extend across Canada and overseas;
- about 40 Crown corporations, for example, the Canadian Broadcasting Corporation and the Royal Canadian Mint;
- the governments of the Yukon, Northwest Territories, and Nunavut and some 20 territorial agencies.

2.5 In addition to these audit responsibilities, the Office audits the operations and financial statements of the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the International Civil Aviation Organization (ICAO). The cost of these audits is recovered from the organizations and returned to the Consolidated Revenue Fund.

2.6 We conduct a variety of audit engagements and we produce several methodology products. Audit products, other than our traditional financial audits, include value-for-money audits, special examinations of Crown corporations, and assessments of departmental sustainable development strategies. In 2000-01, we added to our list of products the assessment of agency performance reports. Exhibit 1 describes these products.

Exhibit 1—Our products

Value-for-money audits

Value-for-money audits examine management practices, controls, and reporting systems with a focus on results. They provide information to help legislators judge how well policies and programs have been implemented. They address such questions as Are department and agency programs run economically and efficiently, and with due regard for their environmental effects? Does the government have the means to measure the effectiveness of its programs? Is legislation complied with, and is the public purse protected?

Financial audit of the Financial Statements of the Government of Canada

The Auditor General examines the financial statements of the Government of Canada, in accordance with generally accepted auditing standards, to obtain reasonable assurance that they are free of material misstatement, and expresses her opinion on the fairness and consistency of their presentation. If the examination discloses that the financial statements contain material misstatements, the Auditor General will qualify her opinion.

Financial audits of Crown corporations, territorial governments, and other entities

We examine over 100 financial statements of Crown corporations, other entities, and territorial governments to express an opinion on the fairness of their presentation in accordance with professional accounting standards. We also obtain assurance that the transactions we examine are, in all significant respects, in compliance with key legislative authorities during the year. Our financial audits of these entities provide assurance to ministers, parliamentarians, elected members of the territorial assemblies, boards of directors, and various other stakeholders.



Exhibit 1—(continued)

Special examinations of Crown corporations	Special examinations examine whether a Crown corporation's management systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. Special examinations are carried out once every five years. We submit our reports to the board of directors and in exceptional cases to the responsible minister and Parliament.
Environment and sustainable development monitoring activities	The Commissioner of the Environment and Sustainable Development monitors and reports on the extent to which departments and agencies have implemented their action plans and met the objectives outlined in their sustainable development strategies. In addition, the Commissioner monitors the replies of ministers to environmental petitions that she receives.
Assessments of agency performance reports	New government service agencies—the Canadian Food Inspection Agency, the Canada Customs and Revenue Agency, and Parks Canada—are required to produce annual reports that contain financial statements and performance information. The Office is required under legislation to assess the fairness and reliability of the performance information provided by the agencies to the public, and that assessment is to be included in the annual reports of the agencies. We do not assess or comment on the actual performance of the agencies.
Other activities	<p>Other activities include our international activities, methodology development, practice review and participation in various professional organizations.</p> <p>We participate actively in the activities of the International Organization of Supreme Audit Institutions (INTOSAI) and serve on a number of its committees and working groups. We help to train legislative auditors in developing countries. In addition, the Office is an active member of various organizations, such as the Canadian Council of Legislative Auditors (CCOLA), the Canadian Comprehensive Auditing Foundation (CCAF) and participates in the work of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA).</p> <p>The Office produces methodology products, audit guides, and studies. The Office also conducts professional reviews of its audit practice and monitors adherence to its Quality Management System.</p>

RISKS AND STRATEGIES

2.7 The main risk to the effectiveness of the Office in “making a difference” is loss of credibility. The ultimate management activity of the legislative auditor is to manage those risks that can affect credibility. Many of those risks are inherent to the practice of legislative auditing, while others are related to the nature of government operations.

Managing legislative auditing risks

2.8 The Office has recognized the existence of audit risks for several years and has developed several strategies to mitigate these risks. The Office’s Strategic Framework, first published in 1993 and updated in 1995 and 1998, identifies six key capabilities that contribute to the credibility and performance of the Office: people, planning, professional practice, communication and reporting, management effectiveness, and mandate and funding. Our continuous efforts to enhance these capabilities result in mitigating audit risks. As the relative importance of these risks varies over time, the Office monitors them carefully and adjusts its risk strategies when necessary.

2.9 In March 2000, the Office approved an action plan to improve critical aspects of its operations: planning, performance reporting, financial systems, audit practice, and human resource management. The plan was updated in January 2001. These measures update and strengthen our risk strategies.

2.10 Exhibit 2 summarizes measures for strengthening our risk strategies.

<i>Exhibit 2—Risks and strategies</i>	
<i>Risks</i>	<i>Strategies</i>
People: Not having the right people in the right place at the right time	Implement a staff “pooling” system and succession plans Develop programs to attract, train, and retain the staff for the future
Planning: Not meeting needs and interests of Parliament and stakeholders and not auditing effectively	Identify and assess entity risks in the planning of all audit products Streamline planning processes
Professional practice: Not maintaining excellence in our work	Benchmark and update audit methodology and tools Improve our capacity to acquire and share knowledge across audit teams Prepare for an external review of our VFM audit practice
Communication and reporting: Not always being understood	Strengthen our communication capacity
Management effectiveness: Not pulling together. Not using our resources effectively and not accounting for our performance	Implement a new financial information system Develop a client feedback mechanism Implement performance measurement and reporting framework
Mandate and funding: Not responding to developments in government	Review funding process with government Review the appropriateness of our current mandate



Managing external risks

2.11 External risks that influence our performance include changes in Parliament and in government organization and management practices. For instance, the 2000 federal election resulted in less committee activity and time available to consider our reports. This reality is a risk to our effectiveness because we consider hearings by parliamentary committees an integral factor in encouraging government to implement our recommendations.

2.12 Parliament is our primary client and we believe that it is important to maintain a good understanding of the interests of parliamentarians. The effort that we put into communications with Parliament is an essential element in ensuring the effectiveness of the Office's work. We meet parliamentarians and research staff frequently and receive letters and phone calls from them regularly. Early in 2001, we communicated with all parliamentary committees to apprise them of significant issues identified in our audits.

2.13 We discuss two risk strategies in the section Management initiatives.

OUR RELATIONSHIP WITH PARLIAMENT AND STANDING COMMITTEES

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

2.15 After the hearings, the Committees may report and make recommendations to the House of Commons. The audited departments or agencies are generally expected to report back to the Committee on what they have done in response to these recommendations. In this way, the Committee ensures a complete accountability loop. We monitor the implementation of the Committee's recommendations and of our own.

Resources Used

2.16 Total parliamentary appropriations used for the fiscal year were \$58.6 million, 97.5 percent of our total authorities. Our appropriations increased by \$6.1 million compared to 1999-2000, to fund new audit work, the implementation of a new accounting system to support the government-wide implementation of the Financial Information Strategy and salary increases.

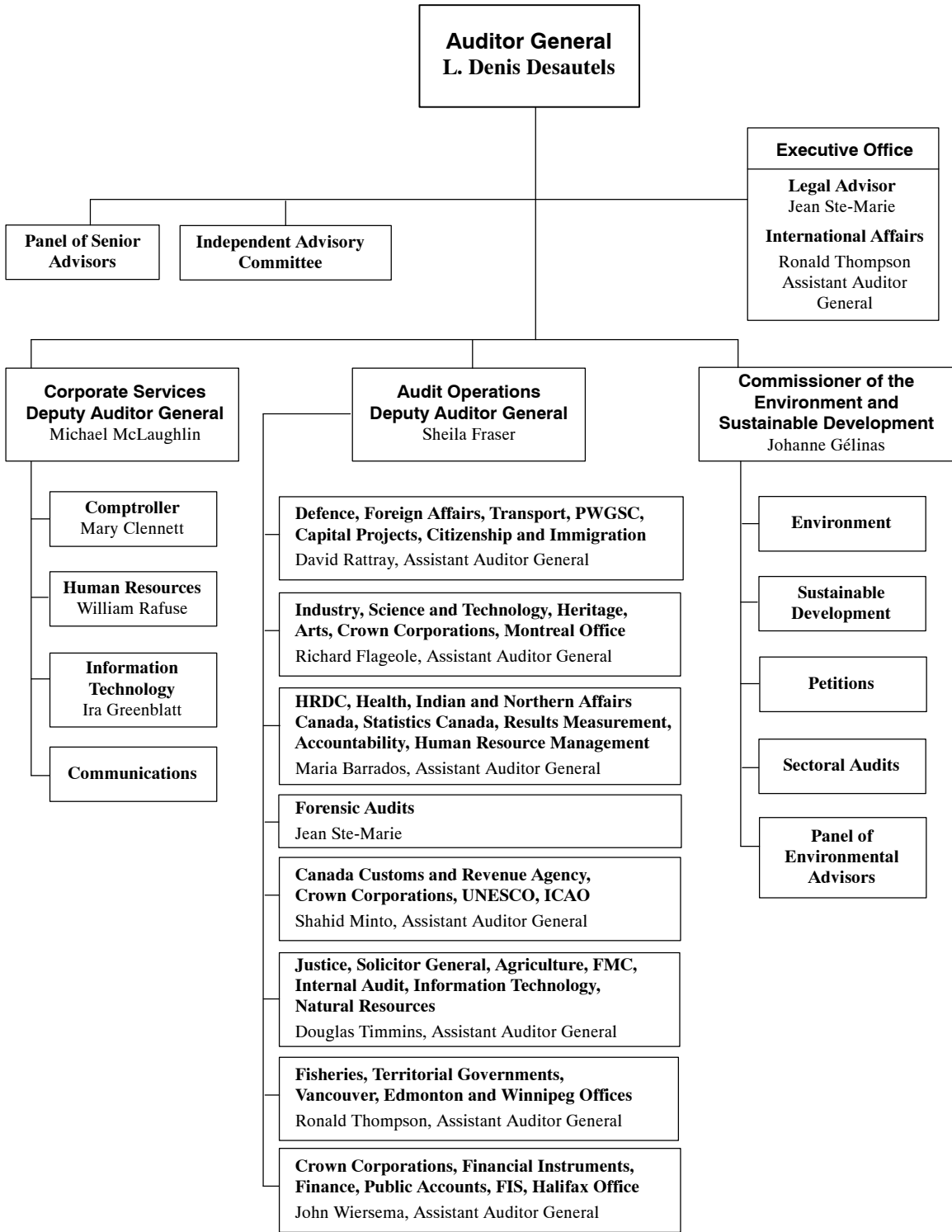
2.17 The net cost of operations of the Office for the year ended 31 March 2001 was \$62.8 million as reported in our audited financial statements presented in Section 3 of this Report. We spent 60 percent of the total audit cost on value-for-money products and 33 percent on financial statement audit activities.

2.18 The total cost of operations reported in our financial statements is greater than the parliamentary appropriations used. This is largely due to the recognition of expenses in accordance with generally accepted accounting principles. These expenses include services provided to the Office without charge by other government departments and expenses that will be funded by Parliamentary Appropriation in future periods such as employee severance benefits and vacation pay. In 2000-01, the cost of services provided without charge to the Office by other government departments totalled \$6.1 million.

2.19 Salaries and employee benefits represent about 75 percent of total costs for the year with professional services contracts making up an additional 10 percent. We used 514 full-time equivalents (FTE) to do our work, which represents 99 percent of our budget of 520 FTEs. This is in line with previous years. At 31 March 2001, the Office had 562 employees. Secondments, part-time work and staff turnover explain the difference between the number of employees and the number of FTEs used. In the past, FTE use had been 92 percent of the number of Office employees.



Exhibit 3—Office Organization (as of 31 March 2001)

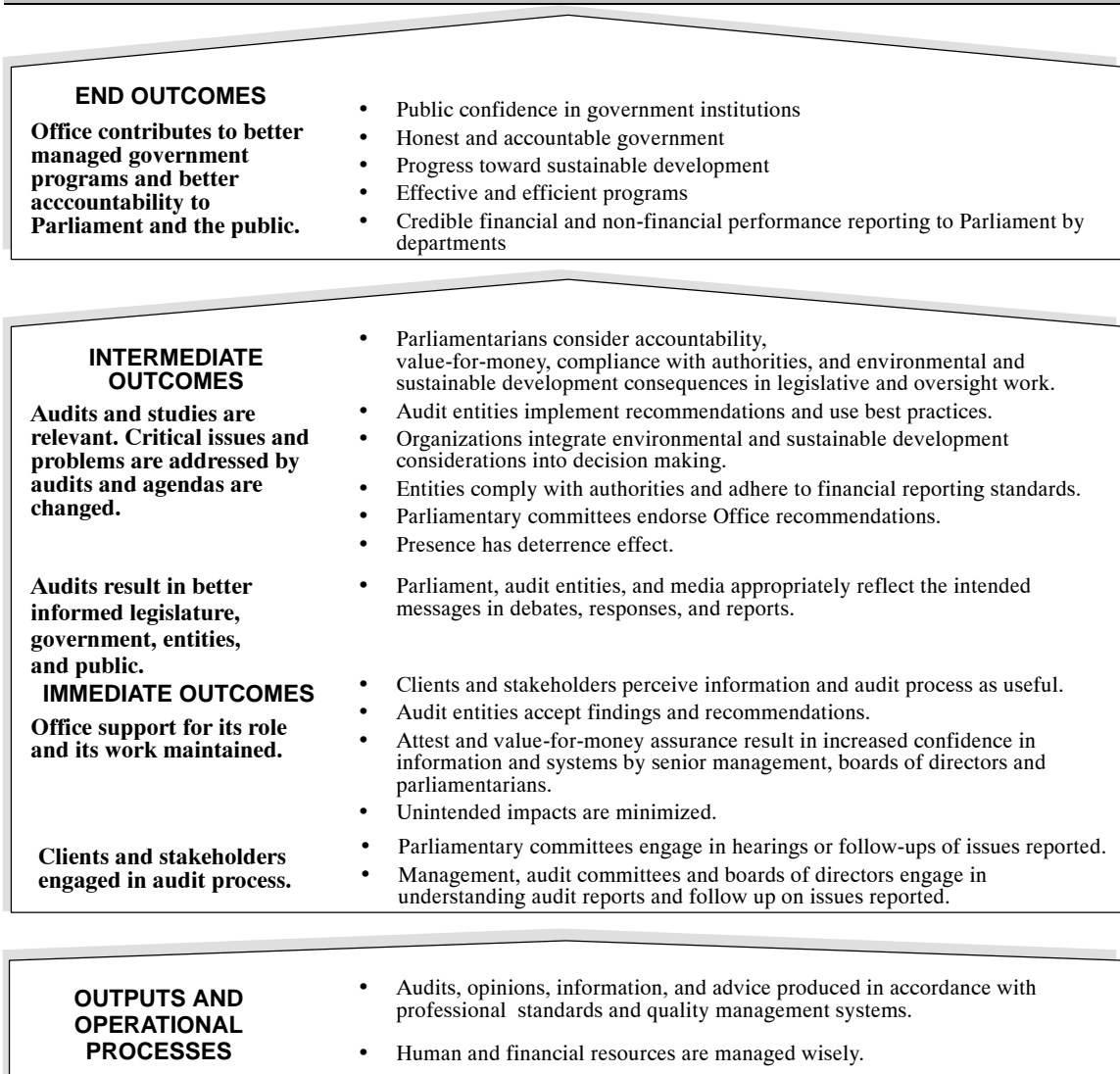


Performance Accomplishments

PERFORMANCE MEASUREMENT AND REPORTING FRAMEWORK

2.20 Our achievements include outcomes and management performance results. The Office uses a results chain to measure these and to show the difference they make for Canadians (see Exhibit 4). The results chain links our outputs—audits, opinions, information, and advice—to our strategic outcomes—better managed government programs and better accountability to Parliament and the public. It describes the behaviour of various stakeholders and their actions to improve government operations. These behaviours constitute intermediate results.

Exhibit 4—Results chain



2.21 Exhibit 5 summarizes the Office performance.

<i>Exhibit 5—Office performance</i>				
Performance measures	1998–99 Actual	1999–2000 Actual	2000–01 Target (1)	2000–01 Actual
Outcome measures				
Recommendations implemented or being implemented (2)	57%	60%	60%	65%
Report chapters reviewed by parliamentary committees (3)	63%	63%	60%	42%
Recommendations endorsed by the Standing Committee on Public Accounts (4)	92%	87%	No target	95%
Usefulness of information (5)				
- Financial audits (every second year)	—	86%	—	—
- Special examinations (third round)	—	—	—	80%
Management performance measures				
	Planned/ Actual	Planned/ Actual	Target	Actual
Completion of audit plan				
- VFM audit reports	35/37	41/42	38	43
- Special examination reports	8/8	13/12	6	5
- Financial audits	—/96	—/96	over 90	106
- Assessments of agency performance reports	1/1	2/2	2	2
- Sustainable development strategies	6/6	5/6	6	6
- Special reports (Capstone Report)	—	—	1	1

(1) Target numbers refer to targets shown in our *Report on Plans and Priorities* or historical performance

(2) Percentage of recommendations made in five years that are fully implemented or being implemented.

(3) Lower performance due to election in October 2000 resulting in less sitting days of the House of Commons.

(4) Percentage of recommendations included in chapters reviewed by the Standing Committee on Public Accounts and endorsed in its reports to the House of Commons.

(5) In our clients surveys, over 80 percent of respondents believed that our financial audits and special examinations were worthwhile and added value to their organization.

OUTCOME MEASURES

Implementation of recommendations

For 2000-01 we expected that 60 percent of our recommendations would be implemented; in fact, the percentage was 65

2.22 We are committed to improving government operations. We seek to engage departments and agencies in improving their operations by producing relevant and

practical recommendations and by monitoring the actions they take to implement our recommendations. Recommendations are intended to address the underlying causes of problems or weaknesses in internal controls, failures to comply with laws and regulations, or other matters impeding effective and efficient performance.

2.23 We follow up on the progress that has been made in response to the observations and recommendations in our value-for-money audits, generally two years after we report them. We also monitor the implementation status of recommendations made in previous years. We have observed an improvement in the implementation of our recommendations from 60 percent to 65 percent. For the remaining recommendations, progress has not been satisfactory for 24 percent and 11 percent were not implemented because of changed circumstances or the entity disagreement with the recommendations.

Our methodology

Each audit team is responsible for tracking the status of outstanding recommendations. They provide a review level of assurance of corrective actions taken on recommendations made two years ago. For recommendations made prior to these two years, they apply their judgment to determining the progress made in implementing them. Their judgment is based on knowledge of the entity's business, documentation provided by entities, and, where relevant, interviews with officials of these entities.

2.24 Our performance of 65 percent is in line with our past performance and the performance of audit offices in other jurisdictions. Our provincial colleagues, the General Accounting Office in the United States, the National Audit Office in the United Kingdom, and the Swedish Audit Office—use the implementation rate of recommendations to measure the impact of their work. Their implementation rates fluctuate between 60 percent and 75 percent. The timing of their follow-up activity and the method they use in calculating the implementation rate of their recommendations explain variations in measured implementation rates.

2.25 We share the credit for our performance with many stakeholders. Government departments and agencies are ultimately responsible for taking corrective actions and improving their management practices. Our contribution is to bring weaknesses in management practices to the attention of Parliament and department senior management and make sensible recommendations.

2.26 In 2001-02 and subsequent years, we will enhance our database, clarify criteria we use in assessing the progress in implementing our recommendations, and review the follow-up process itself. We are looking at the timing of our follow-up audits, the effort we put into them, and the way we report our follow-up findings.

2.27 We use follow-up information in two ways to improve our operations. We use the information to develop and update our audit plans. Areas where progress has been non-existent or slow may be audited again later. We can modify the audit approach to



cover certain aspects that we did not examine in the previous audit. We also use follow-up audits as a source of information to improve our audit practice.

2.28 In its sixth report, tabled in March 2000, the Standing Committee on Public Accounts requested a list of departments and agencies demonstrating low implementation rates and of major areas where implementation has been problematic. Exhibit 6 shows examples of progress or lack of progress in implementing our recommendations.

Exhibit 6—Follow-up results—Implementing our recommendations

Human Resource Development Canada	Management of the Social Insurance Number: 1998 Report, Chapter 16 The government has taken steps to improve the integrity of data in the Social Insurance Register and it has increased the number of investigations of fraud and abuse. However, Human Resource Development Canada still needs to produce a comprehensive study of the use and impact of the Social Insurance Number. A more in-depth analysis is needed to help parliamentarians fully understand the practical, economic, and political implications of different options.
National Defence	Improving the efficiency of support services: 1990 Report, chapters 22 and 23; 1994 Report, Chapter 27; 1996 Report, Chapter 34; 1999 Report, Chapter 27; 2000 Report, Chapter 32 Throughout the 1990s, the Office emphasized the necessity of improving the efficiency of National Defence's support services. Support services cost about 45 percent of the \$11-billion annual Defence budget. Parliament has urged the Department to become more efficient, and progress has been made. Nevertheless, initiatives such as alternative service delivery have progressed much more slowly than predicted. In our December 2000 Report we looked at progress since 1996 and found few improvements.
Health Canada	Improving the health of First Nations: 1997 Report, Chapter 13; 2000 Report, Chapter 15 Since 1993, the Office has commented on deficiencies in health services delivered to First Nations. Our 2000 follow-up audit found that Health Canada had not made sufficient progress in fixing many problems we identified in our 1997 audit of non-insured health benefits as well as contribution and transfer agreements. The lack of timely corrective action has serious implications for First Nations.
Indian and Northern Affairs Canada	Aboriginal governance and fiscal issues: 1996 Report, chapters 13 and 33; 1999 Report, Chapter 10 Canada's Aboriginal Action Plan includes commitments to strengthen Aboriginal governance and to develop new fiscal relationships with First Nations, relationships that give first Nations more flexibility in delivering programs to Aboriginal peoples. As the relationship between the federal government and First Nations evolves, the issue of accountability for moneys expended and results achieved continues to present difficulties for all parties. The Office has reported that more rigorous attention is needed in better matching the degrees of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for the funds provided.

Exhibit 6—(continued)

**Public Works and Government Services Canada,
Treasury Board Secretariat**

**Government contracting: 1997 Report, Chapter 6; 1998 Report, Chapter 26;
1999 Report, Chapter 30; 2000 Report, Chapter 29**

The Office has published a number of chapters on government contracting. The issue has been the subject of hearings by the Standing committee on Natural Resources and Government Operations and the Standing Committee on Public Accounts. We are particularly concerned that the Secretariat continues to treat directed contracts accompanied by an Advance Contract Award Notice (ACAN) as competitive. In our view, an ACAN is clearly a form of non-competitive contracting, even though we agree that it is more transparent.

Accountability

**Accountability is at risk when others are involved in governing: 1999
Report, Chapter 23**

Since 1999, we have reported on the accountability in programs where important aspects of the delivery have been shifted outside the federal government. We believe that parliamentarians should have the opportunity to review the mechanisms for accountability, transparency, and protection of the public interest when considering legislation to create arrangements that fall outside traditional mechanisms, like the *Financial Administration Act*. It is equally important that Parliament regularly scrutinize these arrangements to determine whether they are properly accountable.

Environment and sustainable development

**Canada's Biodiversity Clock is Ticking - Chapter 4, 1998 and
Environmental Assessment: A Critical Tool for Sustainable Development -
Chapter 6, 1998 Commissioner's Report Control of the Transboundary
Movement of Hazardous Waste - Chapter 4 and Ozone Layer Protection:
The Unfinished Journey - Chapter 27, Auditor General's 1997 Report**

The government has made progress in meeting its obligations to reduce or eliminate ozone-depleting substances. It has also made good progress to implement the Canadian Biodiversity Strategy. However, the government still does not know the extent to which it is fulfilling its international obligations to prevent illegal traffic of hazardous waste. And many deficiencies remain in implementing environmental assessment in the federal government.

Engagement of stakeholders

We expected that about 60 percent of our 2000-01 Report chapters would be the subject of parliamentary committee hearings. Parliamentary committees have reviewed 42 percent.

2.29 Parliamentary hearings provide some indication of the engagement of parliamentarians in seeking resolution to the issues reported. The Office participated in 32 hearings and briefings in 2000-01 (43 in 1999-2000). The federal election in 2000 naturally affected the committees' level of activity.

2.30 We expected that about 60 percent of our 2000-01 Report chapters would be the subject of parliamentary committee hearings. Committees held or planned hearings on 42 percent. The hearings covered such topics as the economic component of the Canadian Immigration Program, elementary and secondary education for First Nations, grants and contributions by Human Resources Development Canada, services of the Royal Canadian Mounted Police for the law enforcement community, and human resource management.



2.31 We were disappointed that there were no hearings on specific chapters in the 2000 Report of the Commissioner of the Environment and Sustainable Development. In an effort to increase parliamentarians' awareness of the matters reported by the Commissioner, we will do more to apprise committees of the subject matter that may be of interest to them.

2.32 Exhibit 7 illustrates how we help Parliament understand complex issues.

Exhibit 7—Helping Parliament

Salmon farming and fisheries fleet management.

Our work in Fisheries and Oceans produced two value-for-money chapters, one on salmon farming and the other on fleet management. These chapters received quick responses from parliamentary committees. The Standing Committee on Fisheries and Oceans held two meetings on these chapters (one in Ottawa, and the other in Halifax). The Senate Committee on Fisheries also held its own meeting on salmon farming. This interest underlines the importance of these issues to Parliament and demonstrates its commitment to understanding and resolving them.

Endorsement of recommendations

We expected a high proportion of our audit recommendations to be endorsed by parliamentary committees. The Standing Committee on Public Accounts endorsed 95 percent of them in its reports to the House.

2.33 The endorsement of our recommendations by parliamentary committees is another indicator of the quality of our work. This year we started tracking whether the Standing Committee on Public Accounts explicitly or implicitly endorsed our recommendations in its reports to the House.

2.34 The Committee tabled 12 reports on our 2000 Report chapters. The Committee expects to table an additional 5 reports on the 2000 chapters it examined during the spring session.

2.35 We noted a high-degree of consensus on the conclusions drawn from our work. The Committee often asks departments to submit action plans and progress reports on implementing recommendations contained in our reports and we believe that this is also a strong indication of endorsement.

Our methodology

We analyze the content of parliamentary committee reports that deal with the Auditor General's reports to gauge the extent of endorsement of our recommendations.

Usefulness of information provided

We expected that clients and stakeholders would find our information useful. In our latest surveys of chief executive officers and chairs of the boards of Crown corporations and other entities, over 80 percent of respondents indicated that our audits and information were useful.

2.36 Feedback from stakeholders on the relevance, completeness, and accuracy of our audits and the audit process are critical to improve our operations. So far, we have sought such feedback only on our financial audits and special examinations of Crown corporations and other entities. According to our latest survey on our financial audits (1999), 86 percent of chief executive officers and chairs of boards of directors value our audits and information. We are now surveying financial audit clients about our 2000-01 annual audits.

2.37 The survey of Crown corporations that were the subject of a special examination by our Office produced similar results. It also indicated that we need to improve the timeliness of our audit work. Our plan for the fourth round of special examinations will include measures to respond to these concerns.

2.38 We plan to develop similar feedback mechanisms for other stakeholders and report the results to Parliament. In 2001-02 we will pilot a survey of parliamentarians and develop a strategy for surveying departments and agencies on our value-for-money and financial audit work.

Our methodology

The Office conducts two client surveys. One survey asks the senior management of Crown corporations and other entities about the usefulness of the financial audit information and the quality of our audit process. This survey is conducted every two years. We are surveying financial audit clients about the annual audits we completed in 2000-2001. The Office also surveys Crown corporations at the end of each special examination, about the special examination process and the information provided to senior management and the board of directors. The Office is developing a survey strategy for all its product lines and stakeholders.

Agendas are influenced—Selected achievements

2.39 Our findings and recommendations may result in debate about issues that affect the government's transparency and accountability. Management may implement more effective management practices. Parliament may increase its monitoring activity or seek advice and clarification from its committees or debate. Central agencies may adopt new policies or change existing ones to improve management across the government in specific areas. However, the support of senior management of departments and parliamentarians—in particular members of the Standing Committee on Public Accounts—is crucial if our recommendations are to be acted on.



2.40 It is not possible to develop a quantitative measure of the total impact of our work. In Exhibit 8, we report selected achievements to illustrate the results of our efforts by Office priority.

Exhibit 8—Selected achievements

Office priorities

Priority 1: Help improve the government’s finances and information on its financial condition.

Selected achievements

Auditor General’s observations on the Financial Statements of the Government of Canada are addressed.

In expressing the opinion on the Financial Statements of the Government of Canada for the year ended 31 March 2000, the Auditor General also reported a number of matters that required continuing attention from the government. In the last 10 years, the Auditor General raised 23 such matters, some of them many times. The government has satisfactorily addressed 8 of them and is considering 7. The government disagrees with the Auditor General on 3 matters. The remaining 5 matters were comments on a transaction in a particular year and did not call for specific action.

Contributions to improved financial reporting

The federal government is committed to implementing accrual accounting as part of its Financial Information Strategy (FIS). The federal budget and the *Public Accounts of Canada* will contain financial information expressed on a full accrual basis. Starting in 1998, the Office has issued a series of annual reports on the implementation of this massive project. Our Office has contributed to an informed debate on progress in implementing FIS. The Standing Committee on Public Accounts has reviewed these audit reports, and it has strongly encouraged the government to move to accrual-based appropriations.

Our Office is also very active on the international front in the development of financial reporting and auditing standards. We participate in the work of the International Organization of Supreme Audit Institutions (INTOSAI) Committee on Accounting Standards and the International Federation of Accountants. The Standing Committee on Public Accounts has also encouraged the government of Canada to support the International Federation of Accountants to develop international guidelines and standards for financial reporting.

Clean audit opinion on first set of public accounts for Nunavut

When Nunavut was created in 1999, the Office supported the new territorial government in establishing itself and particularly, in developing a set of public accounts. In 2000, Nunavut finalized its first set of public accounts, and we provided a clean audit opinion on these accounts. The signature of the audit opinion took place in Nunavut’s legislative assembly before its members who had interrupted their session to witness the event. The event and its meaning for the people of Nunavut were covered extensively in the local and national media.

Change in the accounting policies of Atomic Energy of Canada Limited

For several years, the Office has recommended that Atomic Energy of Canada Limited (AECL) comply with standard accounting practices in recording its decommissioning and site remediation liabilities. These liabilities amounted to \$378 million. In 2000, AECL changed its accounting policies to comply with generally accepted accounting principles and recorded these liabilities in its 1999–2000 financial statements. As a result of this move, our Office issued an unqualified opinion on AECL’s financial statements for the first time since 1992.

Opportunities for cost savings

The impact of our work is not easily quantifiable in most cases, but from our audits we often find opportunities for cost savings. Here are examples taken from audits reported in 2000–01.

- **Management of health benefits to First Nations.** In a 1997 audit of health programs delivered to First Nations communities, we noted the need for a point-of-service system to control the administration of benefits. We also recommended that Health Canada take appropriate steps to improve claims-processing system controls and edits. We found that \$8.4 million was saved in 1999 through identification and rejection of improper claims, but further improvements are still possible.
- **Fisheries and Oceans Fleet Management.** In our December 2000 Report, we reported on the management of the Fisheries and Oceans fleet of vessels. In 1999-2000, the Department spent approximately \$229 million for operations, maintenance and capital replacement of the fleet. In addition, an estimated \$52 million was spent on shore-based support. We concluded that the Fisheries and Oceans fleet is not managed cost-effectively. We also found that the fleet was not meeting important program requirements. By improving the management of its fleet, the department could realize savings and use them to address program shortfalls and improve service.
- **Debt servicing costs.** In order to limit its exposure to unexpected increases in interest rates, the government increased the fixed-rate share of federal debt from 55 percent of gross debt in 1995 to 67 percent in 1998, where it remains today. We recommended that in light of its improved fiscal condition, the government review its debt structure target to determine whether it is still appropriate. We noted that based on the historical difference between long- and short-term rates, a five-percentage-point shift from fixed-rate to floating-rate debt could generate an annual saving of some \$250 million.

Dealing with suspected abuse and fraud in the Employment Insurance program

In a 2000 audit observation we disclosed that the Canada Customs and Revenue Agency and Human Resource Development Canada have been unsuccessful in adequately dealing with suspected abuse and fraud in the Employment Insurance program. In June 2001, the Standing Committee on Public Accounts held a hearing on this matter and requested that the Agency and the Department submit to the Committee and our Office an action plan that would respond to the issues raised by the Auditor General. Since then, the Agency and the Department have developed, submitted, and begun to execute their action plan in response to our findings.

Priority 2: Stimulate advances in accountability concepts and improve accountability practices in government.

Our contribution to improvement of government performance reporting

Our Office continued to contribute to the overall direction of the government's initiative to improve reporting to Parliament. A number of our observations and recommendations were reflected in the guidance provided to departments on performance reporting. In particular, the Capstone Report and Chapter 19 of the 2000 Report were critical of the government's slow progress in improving performance reporting to Parliament. The chapter identified a number of changes, including the need for clear, common reporting principles. In the call letter to deputy ministers for the 2001 departmental performance reports, the Secretary of the Treasury Board mentioned the observations of the Auditor General and agreed that there was much room for improvement.

The guidelines sent to departments were a significant departure from previous years, by moving the emphasis from detailed technical requirements toward a set of six broad principles for reporting. The effectiveness of the new Treasury Board guidelines will be demonstrated in future rounds of performance reports, and our Office will continue to monitor and report on progress.

Priority 3: Improve the quality of financial management in government.

Our support of government initiatives

Encouraging better financial management in government has been a long-standing strategic priority of our Office. In 1999 we published the **Financial Management Capability Model**, describing essential elements of financial management in departments and agencies. The Model sets out the Office's expectations for financial management.

Chapter 13 of the 2000 Report presented the results of an audit of the financial management capabilities in five departments. The audit found that none of them had the capabilities to meet the requirements of important initiatives, such as the Modernization of Comptrollership and the Financial Information Strategy. These initiatives aim to modernize the way government manages resources, by strengthening internal controls and providing better information to support planning, decision making, and reporting.

The results of the audit provided the departments with an assessment of their capabilities that they are using to prepare strategies and plans for strengthening their financial management capabilities. These assessments and the strategies prepared in response to the audit will help departments achieve the goals of the government's comptrollership initiative and provide a base line against which future progress may be measured. Three of the departments in the audit are using our assessments in their response to the comptrollership initiative, of which they are a part.

Priority 4: Contribute to necessary changes in the public service.

Modernizing human resources management in the public service

Our Office has been an advocate of changes to human resources management. In the Capstone Report and Chapter 9 of the 2000 Report, we reiterated that fact. We also noted that the current legislative and administrative frameworks were still unduly complex, outmoded, and costly, that responsibility was still fragmented, and that past attempts at reforms had failed. Our findings significantly contributed to the government's decision to establish in April 2001 the Task Force on Modernizing Human Resources Management in the Public Service. Its mandate is to recommend a modern policy as well as a legislative and institutional framework for the management of human resources.

Our audit of the Post-Secondary Recruitment program (Chapter 21) revealed significant recruitment challenges facing the federal public service. In addition to the hearings of the Standing Committee on Public Accounts, significant improvements are being implemented to make this program a more efficient and effective recruitment mechanism. The government is also using our findings to promote awareness of recruitment following its recent Throne Speech, where recruitment was identified as a priority. The Committee held a series of hearings in May 2001 that dealt specifically with our findings in chapters 9 and 21.

Priority 5: Help improve the federal government's performance in protecting the environment and promoting sustainable development.

Helping Parliament to understand climate change and its implications to Canada.

In July 2001, Canada and other parties to the United Nations Framework Convention on Climate Change met in Bonn, Germany to discuss ways to implement the Kyoto Protocol on climate change. They reached a broad political agreement on implementation rules, although they still needed to work on several decisions to translate them into legal text.

Our Office has contributed critical information to public debates on climate change and called attention to its impact on our daily lives. In 1998, the Commissioner of the Environment and Sustainable Development carried out an audit of the government's management of the implementation of Canada's climate change commitments. The audit noted that the effects of climate change on Canada are potentially serious. Every region and sector is expected to be affected, particularly agriculture, forestry, and fisheries. There could also be wide-ranging and serious impacts on human health. The Commissioner stated that the failure to meet Canada's climate change commitments had been mainly the result of poor planning and ineffective management. The Commissioner suggested that it was time to rethink Canada's implementation strategy.

In May 2000, our Office published two reports, a comprehensive study to Parliament on the federal government's support for energy investments and an audit of smog and its impacts on our health. In October 2001, the Commissioner followed up on the 1998 audit of climate change and reported on the government's progress in rethinking its implementation strategy.

Departments' and agencies' agreement with our recommendations

Environment Canada agreed with our recommendation to improve the management of smog. However, since the Commissioner's Report, there have been no parliamentary committee hearings on this issue. The Commissioner will follow up on this work in the 2002 Report.

In response to our recommendation on greening government operations, Public Works and Government Services Canada committed to addressing a number of actions in its updated sustainable development strategy. The Privy Council Office accepted our recommendation on measuring and reporting government environmental performance and has begun discussions with relevant departments.

The Privy Council Office and the Treasury Board Secretariat agreed with our recommendation to improve interdepartmental and other working relationships and partnerships on environment and sustainable development issues. Our recommendations on specific areas of interdepartmental co-operation received mixed responses from departments.

MANAGEMENT PERFORMANCE MEASURES

Outputs

The Office completed the audit plan presented in its 2000-01 Report on Plans and Priorities.

2.41 Our Office experienced intense activity in 2000-01. We published three periodic reports of the Auditor General, the annual report of the Commissioner of the Environment and Sustainable Development, the final report of former Auditor General, Denis Desautels, and the Observations of the Auditor General of Canada on the Financial Statements of the Government of Canada. We completed the audit plan presented in our *Report on Plans and Priorities*.



Highlights of our work

Value-for-money audits

2.42 We published 43 value-for-money chapters that covered all our priorities and all subjects listed in our *Report on Plans and Priorities*. This number exceeded the number of planned chapters by five mainly because we needed to split some audit chapters in two chapters or to expand the scope of some follow-up audits. These actions were necessary to deal adequately with the issues raised in our audit reports.

2.43 The audit of grants and contributions in Human Resources Development Canada generated considerable attention from the public, the media, and parliamentarians. The scope of the audit had to be expanded considerably in order to address issues raised in the Department's internal audit report. We had to re-assign several staff to complete the project in a very short time frame. We found breaches of authority, payments that were made improperly, very limited monitoring of recipient projects' finances and activities, and approvals that were not based on established processes. We also found problems in the design of these programs and in the measurement and reporting of results. We were encouraged by the commitment of the Department's management to tackle these long-standing and widespread problems.

2.44 In our chapter on the governance of Crown corporations, we pointed to weaknesses in boards of directors, audit committees, and the government oversight role in Crown corporations' strategic direction. We also noted that these weaknesses remain, even though they have been pointed out many times before in our reports and other external studies.

2.45 The Commissioner of the Environment and Sustainable Development submitted a fourth annual report. The Report contained nine chapters dealing with the Commissioner's observations on the federal government's performance in such areas as smog, government support for investments in non-renewable versus renewable energy, transboundary movement of hazardous waste, and the greening of the federal government's operations. It focussed on the importance of good partnerships between the federal government, the provinces, the three territories, and the private sector. It showed what happens when these partnerships fail. As well, it documented 17 case studies where federal government departments work with each other, with provincial and territorial governments, and with the private sector to meet common objectives in areas like biotechnology, acid rain, forestry, and mining.

2.46 In February 2001, the former Auditor General presented his final report *Reflections on a Decade of Serving Parliament*. This report, also referred to as the "Capstone Report," assesses the government's progress over the last 10 years in meeting the priorities set by the former Auditor General. This report and our reports of 2000 had a major impact on government decisions to deal with issues such as human resource management and results measurement in the public service.

2.47 The actual cost of our value-for-money audits published in 2000-01 exceeded the budget costs by eight percent (see Table 7). Variances on individual audits may be under-or-over budget since we set budgets prior to establishing the scope of our audits and the approach to gathering audit evidence. These variances are to be expected as they reflect the dynamic nature of legislative auditing and changes in audit scope in order to deal adequately with issues examined by auditors.

2.48 On a fiscal basis, we spent 11 percent less hours than budgeted for value-for-money audits of departments and agencies (see Table 8). This budget variance is due to a number of factors. Our assumption about hours available to do audit work was too high. Staff turnover in our audit professionals group was higher than expected. We reallocated more resources to our professional practice activities during the year.

Financial audit of the Financial Statements of the Government of Canada

2.49 The audit of the Financial Statements of the Government of Canada resulted in an unqualified opinion on the Financial Statements of the Government of Canada. However, the Auditor General expressed concerns on several matters that the government needs to address. The Office also increased its work to address the challenges of implementing the government's Financial Information Strategy.

2.50 The cost of the 1999-00 audit of the Financial Statements of the Government of Canada and hours spent in the fiscal year 2000-01 were both under budget. This is attributable to efficiency gains realized by using a more risk-oriented approach to the audit. In addition, the Office worked pro-actively with the government's central agencies to streamline the preparation and audit of the government's financial statements. We expect that the cost of this audit will increase as the government implements accrual accounting in future years.

Financial audits of Crown corporations, territorial governments and other entities

2.51 The creation of three government service agencies—the Canadian Food Inspection Agency (CFIA), the Canada Customs and Revenue Agency (CCRA), and Parks Canada (PC)—had an impact on our audit work in government agencies. The adoption of generally accepted accounting principles by two of these agencies increased the complexity of the financial audits of these agencies. Also, the obligation to assess the fairness and reliability of the performance reports of the CFIA and Parks Canada required our Office to develop new approaches and techniques to conduct these assessments. In 2001, we will also assess the Performance Report of the CCRA.

2.52 The audit of the three territorial governments and 20 agencies and corporations required additional resources and attention because we audited financial statements of Nunavut for the first time. At the international level, we audited the financial statements of UNESCO (see Exhibit 9) and ICAO.

2.53 On a fiscal year basis, the Office spent about 14 percent less hours than budgeted on audits of other corporations and entities. This is largely due to changes in the planned



timing of our work on the audit of Tax Collection Agreements and deferral of work on accrual of revenues in the new Agency — Canada Customs and Revenue Agency.

Exhibit 9—UNESCO takes action on our audit recommendations

In 2000, our Office completed an audit of UNESCO's financial statements and a performance audit for the 1998–99 biennium. These audits revealed weaknesses in human resource management and financial management. The Executive Board of UNESCO endorsed our recommendations in the fall of 2000 and took immediate corrective actions. In addition, UNESCO strengthened its oversight mechanisms and capacity. Our Office had raised this issue since 1994 when we were elected as external auditor of UNESCO.

Special examinations of Crown corporations

2.54 Of the six special examinations we expected to complete in 2000–01, we completed five. One corporation was dissolved and required no special examination. One special examination was added and completed during the year and another examination was delayed because of resource constraints. We expect to complete the third round of special examinations by March 2002. In Exhibit 10, we provide information on the challenges the audit team faced in conducting the special examination of the Canadian Broadcasting Corporation.

Exhibit 10—Special examination of the Canadian Broadcasting Corporation

Legislation requires that we submit our special examination report only to the Board of Directors of the Canadian Broadcasting Corporation (CBC); however the CBC made the report public in 2001. Here is an overview of the report.

Our Office carried out its special examination of the CBC between September 1999 and June 2000. The CBC is one of the largest Crown corporations that we audit, and it is Canada's largest cultural institution. It is also a national symbol. The CBC reaches most Canadians and a large international community every week, and most Canadians support its existence. The CBC has network and regional operations across the country, with 95 stations and over 28 affiliates. Expenditures in 1999–2000 were \$1.4 billion.

The CBC was a particularly challenging entity to audit. Its size and complexity was part of the reason. It had also gone through a period of intense downsizing and review, was facing serious competition and external challenge, and was struggling with a number of mandate issues. Our report noted broad agreement within and outside the CBC about the need to update its strategy as well as define and balance expected results, audience reach, and funding strategies. The CBC had made several attempts to do this in the past, without success. During our special examination, this issue became publicly visible as CBC senior officials and the Canadian Radio-Television and Telecommunications Commission openly disagreed about the role of the CBC in many areas, including regional programming.

Our report noted the progress the CBC had made in responding to the deficiencies we had identified in our first special examination, and the challenges the corporation had successfully managed in the intervening period. We also identified the need for action in four areas: a balanced strategy for the future, improvements to the CBC's governance and accountability structure, people management and cultural change, and action to address the extreme surplus of facilities base. The first two areas were brought to the attention of the Minister of Canadian Heritage because of their fundamental importance to the future of the CBC.

Environment and sustainable development monitoring activities

2.55 We monitored six government sustainable development strategies as indicated in the *Report on Plans and Priorities*. These were the last group of the 27 sustainable development strategies tabled in Parliament in 1997. A second generation of sustainable development strategies was made public in February 2001.

Professional practice

There is room for improvement in our value-for-money audit practice.

2.56 As a professional service organization, the Office must maintain its credibility through adherence to professional standards and quality management systems. We have implemented a Quality Management System (QMS) that flows from our strategic framework and covers all of our audit product lines: annual audits, value-for-money audits, special examinations, and other emerging product lines.

2.57 Our Professional Practices Group (PPG) reviews our audit operations and internal management and administration activities. The reviews of annual audit operations focus mainly on assessing the effective application of our related QMS, thus ensuring



compliance with legislative requirements, professional standards, and Office policies. In 2000–01, the Group reviewed four annual financial engagements and had no significant shortcomings to report.

2.58 In the review of four value-for-money audits reported in 1999, the PPG found that there were no significant shortcomings. The review identified strong practices in such areas as external consultation and professional development. But opportunities for improvement were identified in some areas, most importantly the resourcing of audits, concluding against objectives, and insufficient documentation on file.

2.59 Weaknesses in our value-for-money practices can be attributable in part to intense activity levels of recent years and under-investment in our human resources, particularly in the training and audit methodology and technology areas. To address this issue and the necessity to maintain an adequate coverage of government operations, the Office has requested from the Treasury Board Secretariat a significant increase to its base budget for 2001–02. In 2001–02, subject to Parliament’s approval, Treasury Board increased our base budget by about 15 percent to modernize our audit methodology and tools and maintain our audit capacity so that we can better meet the challenges.

2.60 The PPG is completing reviews on the practices of six 2000 value-for-money (VFM) audits. These reviews focus on compliance with our VFM audit standards, the effective implementation of our QMS for the VFM practice and other issues. The PPG is also completing its review of the Office’s professional services contracting function. This is part of a multi-year plan to review all significant management and administrative activities.

2.61 In 1999, an external audit of our QMS for the annual audit practice provided assurance that we had conducted annual audits in accordance with legislative requirements, professional standards, and Office policies. We are now taking steps to prepare our VFM audit practice as the next product line for an external review in the future.

Sustainable development performance

Our sustainable development performance is mixed. We published an updated sustainable development strategy in our 2000 December Report.

2.62 We tabled our original Sustainable Development Strategy voluntarily in 1997 and updated it in December 2000 for the years 2001–2004 (reported in Chapter 35 of the December 2000 Report). In 2000–2001, while preparing our second strategy we reviewed our performance, compared to our original goals and objectives. The results of the review formed the basis of changes in our updated strategy.

2.63 During the past year we saw reductions in the percentage of Office references on environment and sustainable development issues in the House of Commons and the Senate. We attribute this decline to a period where the relative emphasis of environmental issues was not as high as other issues on the minds of Canadians. It was also a time of

transition from the original Commissioner of the Environment and Sustainable Development to his successor. We also did not meet our targets to reduce our paper consumption and stocking products that have environmentally responsible characteristics. In the coming year we will undertake actions to reverse these trends. Our performance for key areas is summarized in Exhibit 11. In 2000–2001, the Office reviewed how we report our sustainable development performance—using the same criteria as the Commissioner of the Environment and Sustainable Development in her government-wide audit of departments’ systems to implement their sustainable development strategies. While the review showed that we are above average compared to other departments, there are opportunities to improve our management systems and reporting. The Office is developing an action plan and will implement corrective action for this area in the coming year.

2.64 Throughout the year we involved Office staff by holding sessions to raise awareness of environmental issues. Our staff showed their commitment during Environment Week in June 2000 when we achieved second place in our category for our participation in the national Commuter Challenge.

Exhibit 11—Sustainable development performance summary

Performance measures	1998-99 Actual	1999-00 Actual	2000-01 Target (1)	2000-01 Actual
Outcome measures				
Parliamentarians who felt that our reports added to their knowledge of the environment and sustainable development	38%	Not measured	60%	Not measured (2)
Recommendations related to the environment implemented or being implemented (3)	50%	42%	60%	42%
Office references in Parliament about environment and sustainable development issues	12%	18%	25%	8%
Federal organizations that comply with appropriate standards of practice for protecting the environment and promoting sustainable development	32% (4)	50%	75%	50%
Management performance measures				
Quantity of paper consumed per employee per year (pages)	8,740	8,333	8,578	9,095
Products stocked that are Ecologo or equivalent	-	4.6%	-	4.5%
Self-assessment of staff ability to recognize audit issues of sustainable development			Establish baseline	(5)
Staff who have participated in sustainable development training sessions	29%	42%	65%	44%

(1) Target numbers based on targets described in our revised Sustainable Development Strategy or in past reports on plans and priorities.

(2) Measured as part of a parliamentary survey. None was scheduled in 1999–2000 or 2000–2001.

- (3) Percentage of recommendations made in a five-year period that are fully implemented or in the process of being implemented. Information to update the percentage obtained in 1999-00 was not available in 2000-01. The percentage will be updated next year.
- (4) The capacity of departments to implement their sustainable development strategy is assessed using appropriate standards of practice and is presented in the annual Report of the Commissioner of the Environment and Sustainable Development.
- (5) Measurement criteria and technique not defined. Deferred to 2001-2002.

MANAGEMENT INITIATIVES

2.65 We completed a number of initiatives to improve the way the Office operates. For example, we completed the implementation of a new financial system. The preparation of our financial statements in accordance with Canadian generally accepted accounting principles (GAAP) is a direct result of this initiative. These financial statements will be an important tool in helping us to account for the use of our resources. Progress has also been made in improving our risk assessment practices.

2.66 We describe below two of the initiatives included in our action plan referred to in the section Risks and strategies.

People: Developing programs to attract, train, and retain the staff we need in the future

2.67 At 31 March 2001, the Office had 562 employees. Thirty-five percent of our staff was in the Senior professionals and management category, 35% in the Audit professionals category and 30% in the Audit services category. Sixty-three percent of employees were 40 years old and over. The representation of designated groups is shown in Exhibit 12.

Exhibit 12—Representation of designated groups

Employment equity designated group	Office staff		Workforce availability
	Actual 2000-01	Goal 2000-2001	
Women	52.1%	+46.4%	46.4%
Persons with disabilities	2.8%	3.4%	6.3%
Aboriginal peoples	1.7%	1.7%	2.1%
Persons in a visible minority group	5.1%	7.5%	10.3%

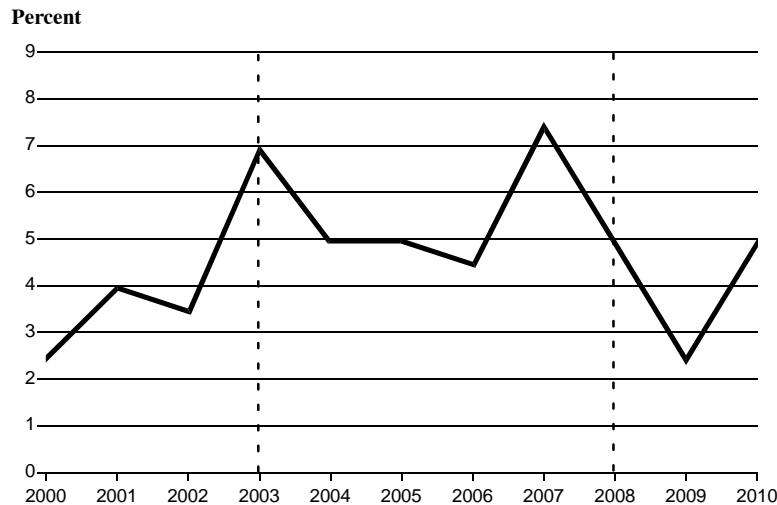
2.68 We did not meet our goal in two of the four designated groups. We will take measures to redress the situation through recruitment, staff development and retention.

2.69 Our employees have postgraduate degrees or professional qualifications in many disciplines. Staff with an accounting designation represent about 60 percent of our professional staff. Staff from other academic disciplines include engineers, lawyers, economists, computer experts, management specialists and sociologists. In addition, we

have programs for employees who are articling for the Chartered Accountant, Certified General Accountant, and Certified Management Accountant programs and for recent graduates with Masters degrees who seek experience in value-for-money auditing. At the end of March 2001, we had 37 trainees in accounting and 8 in value-for-money auditing.

2.70 The age profile is a cause for concern as a significant proportion of our staff and management group is nearing retirement. About one third of our senior professionals and management group will become eligible for retirement between 2003 and 2008 (see Exhibit 13).

Exhibit 13—Senior Professionals and management category retirements



A third of our senior professionals and management staff will be eligible for retirement between 2003 and 2008.

2.71 We are responding with a broad program to reinvest in our human capital. We have developed a succession plan to prepare our employees to take on greater responsibilities and fill critical positions as senior professionals and managers retire over the next two to seven years. We are also responding with an aggressive recruitment program aimed at both active and passive job seekers and assisted by new electronic recruiting technology. We are investing more in training both new and existing employees to become proficient legislative auditors. Our trainee program is an important part of this preparation for employees at the entry level. We have almost doubled the size of our trainee program over the past years recognizing that this is the best strategy for acquiring and developing talent for the future.

Professional practice: Adopting and fine-tuning audit methodology and tools

2.72 New developments—such as the introduction of modern comptrollership practices, new financial information systems and new audit methodologies in the public

and private sectors—mean that we must adapt and fine-tune our audit methodology and tools to better match this new audit environment.

2.73 The Office identified the advancement of audit practices as a mission-critical project. Phase 1 of the project focussed on planning, researching, and selecting a course of action, tools, and techniques for three areas: integrated risk-based planning, compliance with authorities, and audit of the *Public Accounts of Canada*. We completed phase 1 in 2000–01.

2.74 Phase 2 of the project will focus on the implementation of phase 1 initiatives and involve the development of final detailed methodology as well as tools and techniques.

2.75 A related project is our ongoing Office initiative on knowledge management. The purpose of this initiative is to use modern information technologies to capture and share information that is essential to our audit practice. In 2000–01, we developed and tested knowledge management tools. In 2001–02, we plan to broaden the use of these tools to our audit teams and to develop other specialized tools.

Financial Tables

Table 1—Summary of voted appropriations

Financial requirements by authority (\$ millions)		2000–01		
		Planned spending	Total authorities*	Actual
Auditor General				
20	Program expenditures	47.3	52.6	51.1
(25)	Salary of the Auditor General	0.2	0.2	0.2
(S)	Contributions to employee benefit plans	6.5	7.3	7.3
Total		54.0	60.1	58.6

*Total authorities include \$54 million in Main Estimates, \$5.3 million in Supplementary Estimates, and \$0.8 million in adjustments and transfers.

Table 2—Comparison of total planned spending to actual spending (\$ millions)

Legislative auditing		2000–01		
		Planned spending	Total authorities	Actual spending
Full-time equivalents		520	520	514
Operating expenses*		53.6	59.7	58.2
Grants and contributions		0.4	0.4	0.4
Total net expenditures		54.0	60.1	58.6
Other revenues and expenditures				
Non-respendable revenues		(0.8)	(0.0)	(0.8)
Cost of services provided by other departments		6.0	6.0	6.1
Net cost of program		59.2	66.1	63.9

*These expenses include employee benefit plan contributions and the salary of the Auditor General.

Table 3—Historical comparison of total planned spending to actual spending (\$ millions)

Business line	2000–01				
	Actual 1998–99	Actual 1999–2000	Planned spending	Total authorities	Actual
Legislative auditing	53.7	56.9	54.0	60.1	58.6



Table 4—Revenues (\$ millions)

Business line	2000-01			
	Actual 1998-99	Actual 1999-2000	Planned revenues	Actual
Legislative auditing	0.9	0.9	0.8	0.8

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

Table 5—Transfer payments (\$ millions)

Business line	2000-01				
	Actual 1998-99	Actual 1999-2000	Planned spending	Total authorities	Actual
Legislative auditing	0.4	0.4	0.4	0.4	0.4

Table 6—2000 Contracting activity for professional services

Table 6 highlights the Office's contracting activity for professional services in 2000-01. The Auditor General's power to enter into contracts for professional services is subject to subsection 15(2) of the *Auditor General Act* and not the Government Contracts Regulations. The Auditor General's Policy on Contracting for Professional Services requires that contracts for estimated professional fees of \$25,000 or more be awarded through competition, unless they meet one of the three criteria for exemption: a) the need is one of pressing urgency; b) it is not in the public interest to solicit bids due to the nature of the work; or, c) there is only one person capable of performing the work.

Contracts that exceed the North American Free Trade Agreement (NAFTA) threshold follow NAFTA rules. The majority of our contracts are for audit services, which ensure that the appropriate expertise is used in our audit work. This expertise contributes significantly to the quality of our work. Contracts are also awarded for corporate services.

	Original contracts for less than \$25,000 ¹			Original contracts for \$25,000 or more ¹		
	\$000	Number	Percentage	\$000	Number	Percentage
Competitive contracts	210.5	13	2.4	1,913.0	22	81.5
Non-competitive contracts ²	3,252.7	521	97.6	243.4	5	18.5
Total	3,463.2	534	100.0	2,156.4	27	100.0

1 Fees only

2 Includes Advance Award Notices. The average non-competitive contract under \$25,000 was about \$6,200.

Table 7—Cost of Audits completed in 2000-01

This table shows the “product” costs of value-for-money audits, special examinations and financial audits of the financial statements of the Government of Canada, Crown corporations and other entities that were reported in 2000-01. Our audits normally take place over more than one fiscal year. Budget variances are discussed in the section on “Performance management measures: completion of our audit plan”.

The Office allocates all direct salary, professional service, travel and other costs associated with the delivery of individual audits and professional practice projects. All other expenses, including services provided without charge, are treated as overhead and allocated to audits and professional practice projects based on the direct hours charged to them.

	(\$ thousands)	
	Budget cost	Actual Cost
Value-for-money audits		
April 2000 Chapters		
Service Quality	1,050.3	800.8
Human Resources Development Canada—Service Quality at the Local Level	1,451.1	894.2
Citizenship and Immigration—The Economic Component of the Canadian Immigration Program	1,061.4	1,612.7
Indian and Northern Affairs Canada—Elementary and Secondary Education	749.2	602.9
Canada Customs and Revenue Agency—Travellers to Canada: Managing the Risks at Entry	817.1	844.7
Canada Customs and Revenue Agency—Handling Tax Credit Claims for Scientific Research and Experimental Development	783.1	1,129.8
Royal Canadian Mounted Police—Services for Canada’s Law Enforcement Community	1,023.0	1,203.8
Finance—Managing Canada’s Debt: Facing new Challenges	1,729.9	1,001.1
Streamlining the Human Resource Management—Roles and Responsibilities	702.3	908.4
May 2000 Chapters		
Commissioner’s Observations	300.4	95.8
Implementing Departmental Sustainable Development Strategies—Year Two—Work in Progress	800.7	625.5
Greening Government Operations: When will the Government Measure up?	562.0	556.0
Government Support for Energy Investments	956.1	1,003.9
SMOG: Our Health at Risk	825.8	1,429.0
Working Together—Partnerships for Sustainable Development: Overview and Working Together in the Federal Government (2 chapters)	354.2	367.8
Co-operation Between Federal, Provincial and Territorial Governments	434.1	360.7
Working with the Private Sector	389.2	336.2
October 2000 Chapters		
Transport Canada—Airport Transfers: National Airports System	648.0	1,634.4
Human Resources Development Canada—Grants and Contributions	733.8	2,770.8
Values and Ethics in the Federal Public Sector	1,309.6	888.6



	(\$ thousands)	
	Budget cost	Actual Cost
Assessment of Financial Management Capabilities in Departments	2,021.1	2,023.0
Canadian International Development Agency-Managing Contracts and Contribution Agreements	1,463.7	1,870.6
Health Canada-First Nations Health:Follow-up	447.7	494.2
December 2000 Chapters		
Governance of Crown Corporations	406.0	956.4
Reporting Performance to Parliament: Progress too slow. Managing for Results and Managing Horizontal Issues for Results. (2 chapters)	2,241.7	1,558.6
Post-Secondary Recruitment Program of the Federal Public Service	880.0	932.4
Development of the Universal Classification System: Follow-Up	297.9	514.4
Information Technology-Acquisition of Goods and Services	1,154.4	1,021.2
Federal Health and Safety Regulatory Programs	552.3	592.6
Canadian Food Inspection Agency-Food Inspection Safety Programs	783.1	1,040.9
Regulatory Regime of Biologics at Health Canada	523.3	563.4
Canadian Nuclear Safety Commission-Power Reactor Regulation	422.4	443.0
Follow-up on Health and Safety Regulatory Programs	343.6	333.7
Treasury Board Secretariat-Reporting of Contracting Activity Information	852.4	521.9
Fisheries and Oceans-The Role of the Department in the Salmon Farming Industry	593.9	525.9
Fisheries and Oceans-Fleet Management	723.0	842.8
Department of National Defence-Defence Support Productivity: A Progress Report	1,144.7	856.9
Total	31,532.5	34,159.0
Special examinations of Crown corporations		
Canada Lands Company Limited	550.8	346.5
Canadian Broadcasting Corporation	915.6	1,223.2
Canadian Dairy Commission	453.6	408.8
Canadian Museum of Civilization	437.6	518.2
Laurentian Pilotage Authority	280.4	251.5
Total	2,638.0	2,748.2
Financial audits of Crown corporations		
Atlantic Pilotage Authority	49.7	78.9
Atomic Energy of Canada Limited	210.2	279.4
Business Development Bank of Canada	222.4	353.3
Canada Council	93.8	105.6
Canada Deposit Insurance Corporation	137.6	90.8

	(\$ thousands)	
	Budget cost	Actual Cost
Canada Development Investment Corporation	21.6	46.9
Canada Lands Company Limited	137.1	217.1
Canada Mortgage and Housing Corporation	288.1	275.4
Canadian Broadcasting Corporation	482.1	453.9
Canadian Commercial Corporation	90.0	106.6
Canadian Dairy Commission	118.9	124.6
Canadian Film Board Development Corporation	122.3	119.9
Canadian Museum of Civilization	79.5	88.8
Canadian Museum of Nature	79.5	86.2
Canadian Tourism Commission	181.8	16.8
Cape Breton Development Corporation	254.7	252.1
Defence Construction (1951) Limited	35.2	54.8
Enterprise Cape Breton Corporation	91.4	105.5
Export Development Corporation	400.1	453.2
Farm Credit Corporation	344.2	353.5
Federal Bridges Corporation Ltd.	33.9	50.5
Freshwater Fish Marketing Corporation	102.1	71.8
Great Lakes Pilotage Authority	52.2	51.2
International Centre for Human Rights and Democratic Development	51.5	68.6
International Development Research Centre	92.2	104.8
Jacques Cartier and Champlain Bridges Incorporated	96.9	72.0
Laurentian Pilotage Authority	97.8	64.3
Marine Atlantic Inc.	185.7	229.5
National Arts Centre Corporation	107.2	123.3
National Capital Commission	168.5	229.0
National Gallery of Canada	107.1	107.7
National Museum of Science and Technology	74.5	83.6
Old Port of Montreal Corporation Inc.	98.9	140.3
Pacific Pilotage Authority Canada	45.5	48.0
Petro-Canada Limited	17.5	14.2
Queens Quay West Land Corporation	19.8	36.5
Royal Canadian Mint	252.8	321.9
Seaway International Bridge Corporation Ltd.	37.8	44.9
Standards Council of Canada	34.6	44.7
Via Rail Canada Inc.	194.3	229.7
Total	5,311.0	5,799.8



	(\$ thousands)	
	Budget cost	Actual Cost
Audit of the 1990-00 Financial Statements of the Government of Canada	4,070.9	3,568.2
Audits of Other Corporations and Entities		
Canadian Nuclear Safety Commission	38.6	41.3
Canada Customs and Revenue Agency	1,500.8	1,167.6
Canada Pension Plan Account and Canada Pension Plan Investment Fund	415.3	385.9
Canadian Centre for Occupational Health and Safety	30.8	52.7
Canadian Food Inspection Agency	344.3	518.4
Canadian Polar Commission	9.3	10.0
Canadian Transportation Accident Investigation and Safety Board	16.9	26.3
Child Tax Benefit	26.9	28.3
Debt Servicing and Reduction Account	18.3	9.6
Employment Insurance Account	312.7	352.2
Exchange Fund Account	82.8	97.0
Government Annuities Account	89.0	46.2
Market Development Incentive Payments	14.6	6.4
Medical Research Council	27.6	40.1
National Battlefields Commission	33.0	52.2
National Energy Board	59.4	50.7
National Film Board	173.2	174.0
National Round Table on the Environment and the Economy	20.2	20.2
Natural Sciences and Engineering Research Council	41.5	44.7
Northern Pipeline Agency	14.4	10.8
Net Income Stabilization Account	202.8	192.5
Parks Canada Agency	310.0	517.9
Provincial Income Tax — Opinion to the Minister	659.2	672.7
Royal Canadian Mounted Police (Dependants) Fund	10.4	10.0
Social Sciences and Humanities Research Council	33.3	35.4
Treasury Board Quarterly Reports	18.6	10.3
Total	4,503.9	4,573.4

Table 8—Audit Effort by Entity in 2000-01

The purpose of table 8 is to show the Office's audit effort by entity. Information is presented on a fiscal basis. We have grouped entities under three general categories: federal government organizations, territorial organizations and international organizations. Federal organizations are subdivided in departments and agencies, Crown corporations, and other entities. For each entity, we show the costs of our financial audits and value-for-money audits, special examinations and other work. The costs of our environment and sustainable development monitoring activities, assessment of agency performance reports and audits done at the request of the Governor-in-Council are included in value-for-money audits, special examinations and other audit work. Budget variances are discussed in the section on "Performance management measures: completion of our audit plan".

The Office allocates all direct salary, professional service, travel, and other costs associated with the delivery of individual audits and professional practice projects. All other expenses, including services provided without charge, are treated as overhead and allocated to audits and professional practice projects based on the direct hours charged to them.

1. Federal Government Organizations

a. Audits of Departments and Agencies

	Financial Audit of the Financial Statements of the Government of Canada			Value-for-Money Audits and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
<i>(dollars and hours are in thousands)</i>							
Agriculture and Agri-Food Canada	1.0	1.0	95.2	2.9	0.3	28.7	123.9
Atlantic Canada Opportunities Agency	0.1			4.3	3.1	374.4	374.4
Canada Space Agency				5.3	1.2	169.9	169.9
Canadian International Development Agency	0.8	0.8	73.5	10.5	9.1	995.3	1,068.8
Canadian Radio-Television and Telecommunications				4.0	0.6	58.0	58.0
Citizenship and Immigration Canada	0.6	0.4	38.0	3.9	4.4	503.0	541.0
Correctional Service Canada	0.5	0.5	52.6				52.6
Department of Canadian Heritage	0.5	0.3	34.5	1.4	0.1	22.3	56.8
Department of Finance	2.8	2.1	233.9	2.7	0.9	102.5	336.4
Department of Foreign Affairs and International Trade	0.8	0.5	49.3	1.7	0.1	11.6	60.9
Department of Justice	0.1			3.7	1.7	149.5	149.5
Elections Canada				0.2			
Environment Canada	0.2		1.0	24.7	21.1	2,566.4	2,567.4
Export Development Corporation	0.2	0.1	13.9	2.5	2.8	516.3	530.2
Fisheries and Oceans	0.4	0.4	40.6	10.9	14.1	1,683.3	1,723.9
Governor General of Canada				0.1			

	Financial Audit of the Financial Statements of the Government of Canada			Value-for-Money Audits and Other Audit Work			Total
	<i>(dollars and hours are in thousands)</i>						
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Health Canada	0.7	0.7	74.8	5.7	5.3	564.3	639.1
Human Resources Development Canada	1.8	1.5	145.2	9.6	20.3	2,340.5	2,485.7
Indian Affairs and Northern Development Canada	1.7	1.1	111.9	10.1	1.3	172.9	284.8
Industry Canada	0.8	0.8	84.3				84.3
National Defence	1.8	2.1	178.5	8.0	11.8	1,216.8	1,395.3
National Research Council Canada	0.1						
Natural Resources Canada	0.9			3.7	2.4	300.9	300.9
Public Accounts of Canada ¹	24.1	15.8	2,067.8				2,067.8
Public Works and Government Services Canada	1.1	1.1	112.8	2.4	3.2	365.5	478.3
Receiver General	0.2	0.3	33.7				33.7
Royal Canadian Mounted Police	0.7	0.7	84.6	6.0	2.8	328.2	412.8
Science and Technology				1.9	0.8	95.1	95.1
Statistics Canada				2.0			
Transport Canada	0.9	0.8	75.6	3.8	5.6	599.0	674.6
Treasury Board Secretariat				1.9	1.4	180.8	180.8
Veterans Affairs Canada	0.5	0.3	45.2				45.2
Western Economic Diversification Canada	0.2		2.1				2.1
Government-Wide Audits and Special Audits							
Accountability				9.7	11.0	1,091.9	1,091.9
Contracting				6.3	4.5	482.3	482.3
Crown Corporations Accountability and Control Issues				1.7	4.7	647.5	647.5
Environmental Act Review				0.3	0.1	6.1	6.1
Financial Management and Control				7.9	6.4	718.6	718.6
FIS Impact				1.5			

¹ Include management of the audit, analysis of central reporting issues and preparation of Auditor General's observations

	Financial Audit of the Financial Statements of the Government of Canada			Value-for-Money Audits and Other Audit Work			Total
	<i>(dollars and hours are in thousands)</i>						
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Food Inspection Safety Programs				4.2	6.5	633.1	633.1
Canadian Nuclear Safety Commission-Power Reactor Regulation				0.8	1.6	237.8	237.8
Regulatory Regime of Biologics at Health Canada				3.9	3.6	398.8	398.8
Follow-up of Previous Recommendations on Health and Safety Regulatory Programs				1.3	2.6	292.3	292.3
Federal Health and Safety Regulatory Program				3.9	4.1	393.0	393.0
Human Resource Management				6.8	7.3	737.8	737.8
Grants and Contributions				3.8	9.8	1,127.2	1,127.2
Information Technology				9.8	6.3	802.9	802.9
Management of the North				7.1	0.4	76.9	76.9
Northern Environmental Issues				0.2			
Protection of Public Assets				9.5	9.0	980.6	980.6
Public Service Reform				2.4	2.7	401.5	401.5
Results Measurement				5.6	0.1	11.7	11.7
Sustainable Development				24.2	21.3	2,472.0	2,472.0
Values and Ethics				3.4	3.6	338.9	338.9
Follow-Up Audits				26.7	17.8	1,825.9	1,825.9
Knowledge of the Business				27.8	25.0	2,920.3	2,920.3
Reports to the House of Commons²				43.2	47.4	5,100.8	5,100.8
Total Audits of Departments and Agencies	43.5	31.3	3,649.0	345.9	310.2	35,043.1	38,692.1

² Includes editing, translation and printing of Reports.

b. Audits of Crown Corporations

	Financial Audits			Special Examinations and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Atlantic Pilotage Authority	0.6	1.0	78.9				78.9
Atomic Energy of Canada Limited	1.9	2.1	279.3	0.1	0.1	7.0	286.3
Business Development Bank of Canada	2.7	3.3	447.4				447.4
Canada Council	1.1	0.9	108.7				108.7
Canada Deposit Insurance Corporation	1.1	0.9	95.7				95.7
Canada Development Investment Corporation	0.3	0.5	51.5				51.5
Canada Lands Company Limited	1.2	1.5	207.0	2.2	1.4	227.0	434.0
Canada Mortgage and Housing Corporation	3.0	2.7	297.5				297.5
Canadian Broadcasting Corporation	4.5	4.9	574.1	1.3	1.7	216.7	790.8
Canadian Commercial Corporation	1.0	1.3	123.4				123.4
Canadian Dairy Commission	1.3	1.4	124.8	0.2	0.3	32.7	157.5
Canadian Film Board Development Corporation	1.5	1.3	154.9				154.9
Canadian Museum of Civilization	1.0	1.0	95.9	1.5	1.9	263.6	359.5
Canadian Museum of Nature	1.0	1.0	92.6	3.4	3.0	405.0	497.6
Canadian Tourism Commission	1.6	0.1	16.8				16.8
Canadian Wheat Board				3.0	3.8	528.2	528.2
Cape Breton Development Corporation	2.4	1.9	214.3				214.3
Defence Construction (1951) Limited	0.5	0.7	66.4				66.4
Enterprise Cape Breton Corporation	0.8	1.2	135.9				135.9
Export Development Corporation	4.4	5.2	500.2				500.2
Farm Credit Corporation	3.2	2.4	313.2				313.2
Federal Bridges Corporation Ltd.	0.4	0.5	58.9				58.9
Freshwater Fish Marketing Corporation	1.1	0.8	72.9				72.9

	Financial Audits			Special Examinations and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Costs (\$)	Budget Hours	Actual Hours	Actual Costs (\$)	Actual Cost (\$)
Great Lakes Pilotage Authority	0.5	0.4	51.7				51.7
International Centre for Human Rights and Democratic Development	0.5	0.5	65.0	0.1			65.0
International Development Research Centre	1.1	1.3	141.7		0.2	45.3	187.0
Jacques Cartier and Champlain Bridges Inc.	1.0	0.6	71.5				71.5
Laurentian Pilotage Authority	0.8	0.8	94.3	0.2	0.1	13.9	108.2
Marine Atlantic Inc.	1.8	2.1	229.5				229.5
National Arts Centre Corporation	1.3	1.3	125.8				125.8
National Capital Commission	2.0	2.2	222.5				222.5
National Gallery of Canada	1.0	1.0	112.2				112.2
National Museum of Science and Technology	0.9	1.0	91.3				91.3
Old Port of Montreal Corporation Inc.	0.8	1.3	148.6				148.6
Pacific Pilotage Authority	0.5	0.6	48.0				48.0
Petro-Canada Limited	0.2	0.1	14.2				14.2
Queens Quay West Land Corporation	0.2	0.2	30.7				30.7
Royal Canadian Mint	2.9	3.0	316.9	0.1		4.9	321.8
Seaway International Bridge Corporation Ltd.	0.4	0.4	44.9				44.9
Standards Council of Canada	0.4	0.5	43.8				43.8
Teleglobe Canada				0.1			
Via Rail Canada Inc.	2.0	2.1	230.0				230.0
Cape Breton Growth Fund		0.1	18.0				18.0
Total Audits of Crown Corporations	54.9	56.1	6,210.9	12.2	12.5	1,744.3	7,955.2

c. Audits of Other Corporations and Entities

	Financial Audits			Value-for-Money Audits and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Canadian Nuclear Safety Commission	0.4	0.6	55.1				55.1
Canada Customs and Revenue Agency	20.4	16.3	1,580.2	20.5	13.3	1,581.6	3,161.8
Canada Pension Plan Account and Canada Pension Plan Investment Fund	4.7	3.5	373.2				373.2
Canadian Centre for Occupational Health and Safety	0.3	0.3	51.4				51.4
Canadian Food Inspection Agency	3.6	5.0	460.4	1.3	1.3	144.3	604.7
Canadian Polar Commission	0.1	0.1	10.8				10.8
Canadian Transportation Accident Investigation and Safety Board	0.2	0.2	23.1				23.1
Child Tax Benefit	0.3	0.1	12.7				12.7
Debt Servicing and Reduction Account	0.2	0.1	12.3				12.3
Employment Insurance Account	3.3	3.1	328.9				328.9
Exchange Fund Account	1.0	1.1	98.9				98.9
Government Annuities Account	0.8	0.5	45.9				45.9
Market Development Incentive Payments	0.2	0.2	17.0				17.0
Medical Research Council	0.3	0.3	36.4				36.4
National Battlefields Commission	0.3	0.5	48.8				48.8
National Energy Board	0.6	0.7	74.7				74.7
National Film Board	1.9	1.5	180.4				180.4
National Round Table on the Environment and the Economy	0.3	0.3	24.9				24.9
Natural Sciences and Engineering Research Council	0.5	0.5	43.7				43.7
Northern Pipeline Agency	0.1	0.1	10.8				10.8

	Financial Audits			Value-for-Money Audits and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Net Income Stabilization Account	2.2	2.1	188.4				188.4
Parks Canada Agency	3.5	3.8	415.7	2.6	2.4	301.8	717.5
Provincial Income Tax — Opinion to the Minister	10.1	7.5	752.5				752.5
Ridley Terminals	1.0	0.2	27.7				27.7
Royal Canadian Mounted Police (Dependants) Fund	0.1	0.1	11.0				11.0
Social Sciences and Humanities Research Council	0.4	0.4	34.6				34.6
Treasury Board Quarterly Reports	0.2	0.1	10.3				10.3
Total Audits of Other Corporations and Entities	57.0	49.2	4,929.8	24.4	17.0	2,027.7	6,957.5

2. Audits of Territorial Organizations

Northwest Territories

Aurora College	0.8	0.9	96.9				96.9
Business Credit Corporation	0.7	0.9	99.4				99.4
Development Corporation	1.1	1.4	152.8				152.8
Government of the Northwest Territories	6.0	5.6	663.9	1.9	2.0	215.9	879.8
Housing Corporation	1.4	1.5	166.8				166.8
Liquor Commission	0.1	0.1	43.3				43.3
Petroleum Products Revolving Fund	0.8	0.5	51.1				51.1
Power Corporation	2.1	2.0	222.9				222.9
Workers' Compensation Board	1.2	1.1	130.4				130.4

Nunavut Territory

Nunavut Housing Corporation	1.1	0.9	92.1				92.1
Nunavut Arctic College	1.0	0.9	106.2				106.2
Nunavut Business Credit Corporation	0.4	0.4	39.3				39.3
Nunavut Development Corporation	1.5	1.4	152.5				152.5
Government of Nunavut	5.8	5.6	779.6	2.3	0.2	16.1	795.7

	Financial Audits			Value-for-Money Audits and Other Audit Work			Total
	Budget Hours	Actual Hours	Actual Cost (\$)	Budget Hours	Actual Hours	Actual Cost (\$)	Actual Cost (\$)
Office of the Interim Commissioner		-	2.5				2.5
Petroleum Products Revolving Fund	1.2	1.0	100.0				100.0
Yukon Territory							
Development Corporation	0.1	0.1	15.9				15.9
Energy Corporation	1.3	1.5	175.8				175.8
Government of the Yukon Territory	2.7	2.5	302.2	0.7	0.2	28.8	331.0
Housing Corporation	1.2	1.3	152.7				152.7
Liquor Corporation	0.5	0.4	44.6				44.6
Surface Rights Board	0.1	0.1	11.1				11.1
Workers' Compensation Fund	1.0	1.0	106.3	1.1	0.6	89.1	195.4
Yukon College	0.9	0.9	100.9				100.9
Total Audits of Territorial Organizations	33.0	32.0	3,809.2	6.0	3.0	349.9	4,159.1
3. Audits of International Organizations							
International Civil Aviation Organization	3.7	3.5	375.0	1.3	2.0	262.3	637.3
United Nations Educational Scientific and Cultural Organization (UNESCO)	2.1	2.8	365.6	1.6	2.6	424.6	790.2
Total Audits of International Organizations	5.8	6.3	740.6	2.9	4.6	686.9	1,427.5
Total Cost of Audits	194.2	174.9	19,339.5	391.4	347.3	39,851.9	59,191.4

SECTION 3

Financial Statements

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



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

Management's Statement of Responsibility

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

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

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

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

Handwritten signature of Sheila Fraser in black ink.

Sheila Fraser, FCA
Auditor General of Canada

Handwritten signature of Michael J. McLaughlin in black ink.

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

Ottawa, Canada
28 September 2001



Auditors' Report

To the Speaker of the House of Commons

We have audited the statement of financial position of the Office of the Auditor General of Canada as at 31 March 2001 and the statements of operations, deficit of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at 31 March 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Office that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations and the *Auditor General Act*.

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

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

Ottawa, Canada
28 September 2001

**Office of the Auditor General of Canada
Statement of Financial Position**

	31 March 2001	1 April 2000
Assets		
Current assets		
Cash entitlement	\$ 6,866,657	\$ 3,934,375
Accounts receivable	319,033	123,966
	7,185,690	4,058,341
Capital assets (note 5)	2,884,794	1,153,956
	\$ 10,070,484	\$ 5,212,297
Liabilities and Deficit of Canada		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,942,720	\$ 2,593,591
Vacation pay	2,477,975	2,165,366
Current portion of employee severance benefits	994,694	712,048
	9,415,389	5,471,005
Employee severance benefits	9,651,285	9,864,196
Deficit of Canada (note 6)	(8,996,190)	(10,122,904)
	\$ 10,070,484	\$ 5,212,297

Contingencies (note 9)

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

Approved by:

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Mike McLaughlin

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

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

	2001
Expenses (note 7)	
Value-for-money audits	\$ 35,678,689
Financial audits of Crown corporations, territorial governments and other entities	15,690,453
Financial audit of the financial statements of the Government of Canada	3,649,015
Environment and sustainable development monitoring activities	2,472,004
Special examinations of Crown corporations	1,179,624
Assessments of agency performance reports	521,632
Total cost of audits	59,191,417
Professional practice (note 8)	4,366,467
Total cost of operations	63,557,884
Costs recovered	
International audits	661,823
Other	139,766
Total costs recovered	801,589
Net cost of operations	\$ 62,756,295

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

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

	2001
Deficit of Canada, beginning balance	\$ (10,122,904)
Total cost of operations	(63,557,884)
Parliamentary appropriations used (note 4)	58,576,424
Services provided without charge by other government departments (note 7)	6,108,174
Deficit of Canada, ending balance	\$ (8,996,190)

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

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

	2001
Operating activities	
Cash Payments	\$ (54,061,922)
Cash Receipts	801,589
Cash used in operating activities	(53,260,333)
Investing activities	
Capital asset acquisitions	(2,387,979)
Proceeds from the disposal of capital assets	4,170
Cash used in investing activities	(2,383,809)
Financing activities	
Parliamentary appropriations used (note 4)	58,576,424
Cash provided by financing activities	58,576,424
Increase in cash entitlement during the year	2,932,282
Cash entitlement, beginning of year	3,934,375
Cash entitlement, end of year	\$ 6,866,657

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

Office of the Auditor General of Canada
Notes to the financial statements for year ended 31 March 2001

1. Authority and Objective

The *Auditor General Act*, the *Financial Administration Act* and a variety of other acts and orders-in-council set out the duties of the Auditor General and the Commissioner of the Environment and Sustainable Development. These duties relate to legislative auditing and monitoring of federal departments and agencies, Crown corporations, territorial governments and other entities that include two international organizations. The business line of the Office of the Auditor General of Canada is legislative auditing and consists of value-for-money audits of departments and agencies, financial audit of the financial statements of the Government of Canada, financial audits of Crown corporations and other entities, special examinations of Crown corporations, environment and sustainable development monitoring activities and assessments of agency performance reports. The Office is funded through annual appropriations received from the Parliament of Canada and is not taxable under the provisions of the *Income Tax Act*.

Pursuant to the *Financial Administration Act* (“*FAA*”), the Office is a department of the Government of Canada for the purposes of that Act and is listed in schedule 1.1 of the *FAA*.

2. Significant Accounting Policies

a) Basis of Presentation

The financial statements of the Office have been prepared in accordance with Canadian generally accepted accounting principles.

b) Parliamentary Appropriations

The Office is funded by the Government of Canada through annual Parliamentary appropriations. Parliamentary appropriations are recorded directly to the Deficit of Canada in the fiscal year for which they are approved by Parliament and used by the Office.

c) Costs Recovered

The costs of audits are paid from monies appropriated by Parliament to the Office. For international audits, agreements are in place to recover the costs of doing this work. Costs recovered for international audits are recorded on an accrual basis in accordance with the respective billing agreements. Amounts recovered are deposited in the Consolidated Revenue Fund and cannot be respent by the Office.



d) Cash Entitlement

The financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of Canada. The cash entitlement balance represents the amount of cash that the Office is entitled to draw from the Consolidated Revenue Fund, without further appropriations, in order to discharge its liabilities.

e) Capital Assets

Capital assets are recorded at historical cost less accumulated amortization. The Office capitalizes the costs associated with internal use software including software licenses, installation costs, professional service contract costs and salary costs of employees directly associated with these projects. The costs of software maintenance, project management and administration, data conversion and training and development are expensed in the year incurred.

Amortization of capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Assets	Useful life
Informatics Hardware and Infrastructure	3 years
Office Equipment	4 years
Furniture and Fixtures	7 years
Informatics Software	3 years
Motor Vehicle	5 years

f) Employee Severance Benefits and Vacation Pay

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

g) Services provided without charge by other Government Departments

Services provided without charge by other government departments are recorded as operating expenses by the Office at their estimated cost. A corresponding amount is credited directly to the Deficit of Canada.

h) Allocation of Expenses

The Office allocates all direct salary, professional service, travel and other costs associated with the delivery of individual audits and professional practice projects. All other expenses, including services provided without charge, are treated as overhead and allocated to audits and professional practice projects based on the direct hours charged to them.

i) Contributions to Public Service Superannuation Plan

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

j) Use of Estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Capital assets and human resource related accrued liabilities are the most significant items for which estimates are used. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. *Comparative Figures*

In previous years, the Office prepared its financial results on a modified-cash basis. This is the first year that a set of financial statements including a Statement of Financial Position, Statement of Operations, Statement of Deficit of Canada and Statement of Cash Flows have been prepared in accordance with Canadian generally accepted accounting principles. It is neither practical nor cost effective for the Office to show comparative amounts on the Statements of Operations, Deficit of Canada and Cash Flows because the information is not readily available and any estimation of previous year amounts would not be able to be substantiated with any degree of precision.

4. *Parliamentary Appropriations*

The Office is funded through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Deficit of Canada in one year may be funded through Parliamentary appropriations in prior and future years. Accordingly, the Office's net cost of operations for the year based on Canadian



generally accepted accounting principles is different than total Parliamentary appropriations used for the year. These differences are reconciled below:

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

Net cost of operations	\$ 62,756,295
Less: Expenses not requiring the use of appropriations	
Amortization of capital assets	(657,141)
Services provided without charge by other government departments	(6,108,174)
Add : Costs recovered	801,589
	56,792,569
Changes in amounts not affecting the current year's funding requirements:	
Cash entitlements	2,932,282
Accounts receivable	195,067
Accounts payable and accrued liabilities	(3,349,129)
Vacation pay	(312,609)
Employee severance benefits	(69,735)
	(604,124)
Capital asset acquisitions funded by appropriations	2,387,979
Total Parliamentary appropriations used	\$ 58,576,424

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

Parliamentary appropriations voted:	
Vote 20 and 25/30: Operating expenditures	\$ 52,773,625
Statutory contributions to employee benefit plans	7,288,000
Proceeds from disposal of Crown assets	4,170
	60,065,795
Less lapsed appropriations:	
Vote 20 and 25/30: Operating expenditures	(1,489,371)
Total Parliamentary appropriations used	\$ 58,576,424

5. *Capital Assets*

Cost	1 April 2000	Additions	Disposals	31 March 2001
Informatics Hardware and Infrastructure	\$ 3,835,686	\$ 519,047	\$ 821,884	\$ 3,532,849
Office Equipment	412,677	85,521	17,086	481,112
Furniture and Fixtures	148,635	-	-	148,635
Informatics Software	73,504	1,783,411	-	1,856,915
Motor Vehicle	22,226	-	-	22,226
	\$ 4,492,728	\$ 2,387,979	\$ 838,970	\$ 6,041,737

Accumulated amortization	1 April 2000	Amortization	Disposals	31 March 2001
Informatics Hardware and Infrastructure	\$ 2,848,493	\$ 591,082	\$ 821,884	\$ 2,617,691
Office Equipment	354,262	25,128	17,086	362,304
Furniture and Fixtures	93,863	6,995	-	100,858
Informatics Software	25,855	29,491	-	55,346
Motor Vehicle	16,299	4,445	-	20,744
	\$ 3,338,772	\$ 657,141	\$ 838,970	\$ 3,156,943
Net Book Value	\$ 1,153,956			\$ 2,884,794

6. *Deficit of Canada*

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



7. *Summary of Expenses by Major Classification*

Summary of expenses by major classification for the year ended 31 March 2001 are as follows:

Salaries and Employee Benefits	\$ 46,216,781
Professional Services	6,068,634
Office Accommodation	4,047,946
Travel and Communications	3,920,886
Informatics, Office Equipment, Furniture and Fixtures	1,171,034
Printing and Publication Services	777,137
Utilities, Materials and Supplies	382,245
Contribution to the CCAF-FCVI inc. (Canadian Comprehensive Auditing Foundation)	377,510
Repair and Maintenance	328,202
Rentals and other payments	267,509
Total cost of operations	\$ 63,557,884

The total cost of operations includes services provided without charge by other government departments totaling \$6,108,174. This is composed of \$4,047,946 for accommodation and \$2,060,228 for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan.

8. *Professional Practice*

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

International activities	\$ 1,828,974
Methodology and knowledge management	1,694,270
CCAF-FCVI inc. (Canadian Comprehensive Auditing Foundation)	377,510
Canadian Council of Legislative Auditors	276,234
Participation in standard setting activities	144,480
Practice review	44,999
Professional Practice	\$ 4,366,467

9. *Contingencies*

In 2000/01, the Public Service Alliance of Canada filed a pay equity suit against the Crown alleging discrimination based on sex had occurred in seven separate employers. The Office, although not a party to the suit, is one of the separate employers named in the suit. The suit requests that the Treasury Board retroactively increase the wage rates of employees of specific separate employers to remedy the discrimination. No amount is specified in the claim. In the opinion of management, the outcome of this suit is not determinable at this time.

10. *Related Party Transactions*

The Office is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Office enters into transactions with these entities in the normal course of business and on normal trade terms. As Parliament's auditor, the Office is mindful of its independence and objectivity when entering into any such transactions.

The Office incurred expenses of \$14,745,821 and recovered costs of \$31,196 from transactions in the normal course of business with other Government departments, agencies and Crown corporations during the year. These expenses include services provided without charge of \$6,108,174 as described in note 7.



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

	2001	2000
Accounts Receivable	\$ 184,427	\$ 110,767
Accounts Payable	836,116	45,515

11. Retirement Benefits

The Public Service Superannuation Plan requires that employers contribute on an equal basis as employees to the Plan. These contributions represent the total pension obligations of the Office and are recognized in the accounts on a current basis. The Office's contribution to the Plan was \$4,970,416 for the year ended 31 March 2001.

SECTION 4

Other Information

CROSSWALK BETWEEN THE 2000 AND THE 2001 PERFORMANCE REPORTS

The structure of the 2001 report was changed to comply with the government's new guide on the preparation of performance reports and to integrate our new performance measurement and reporting framework. Also, our commitment to the implementation of the Government's Financial Information Strategy has resulted in the publication of our first set of financial statements prepared in accordance with Canadian generally accepted principles (GAAP). The 2001 performance report contains three sections: Message from the Auditor General of Canada, Office Performance, Financial Statements.

Section 2 "Office Performance" integrates information previously included in sections 2, 3, 4, 5 of the 2000 performance report. Sub-section "Context and Background" provides summary information on the mandate, activities and risks faced by the Office in delivering outcomes to Canadians. Sub-section "Resources Used" discusses resources used during the year. Sub-section "Performance accomplishments" discusses outcomes achieved, management performance and management initiatives. Sub-section "Financial Tables" includes information on our contracting for professional services activity and two tables on cost of audits completed in 2000-01 and audit effort by entity.

Government guidelines on the preparation of performance reports require that we provide clear, concise and high level information. For this reason, internal performance management indicators such as the average cost of value-for-money audits and special examinations, Audit Project Hour Ratio, Training activity for Audit Professional Staff and descriptions of several management initiatives are no longer shown in the report.

Section 3 "Financial Statements" is new.

STATUTORY REPORTS

• Report of the Auditor General of Canada to the House of Commons	Published periodically. Available in a variety of formats and on our Web site(www.oag-bvg.gc.ca).
• Report of the Commissioner of the Environment and Sustainable Development to the House of Commons	Published annually. Available in a variety of formats and on our Web site (www.oag-bvg.gc.ca).
• Opinion of the Auditor General on the Financial Statements of the Government of Canada	Published annually in the Public Accounts of Canada, Volume I and available on the Web site (http://www.pwgsc.gc.ca/recgen/text/pubacc-e.html).
• Opinion on the Condensed Financial Statements of the Government of Canada	Published annually in the Annual Financial Report of the Government of Canada.
• Opinions by the Auditor General on over 100 financial statements of federal Crown corporations, other entities, territorial governments and organizations, and international organizations	Published in the various statutory reports that contain the financial statements of these organizations.
• Special examinations of Crown corporations	Submitted to the boards of directors every five years.
• Annual Report on Other Matters to the Yukon Legislative Assembly, to the Northwest Territories Legislative Assembly, and to the Nunavut Legislative Assembly	Submitted annually to the legislative assemblies and available from the Clerk of each assembly.
Assessment of agency performance reports	Submitted annually to the management boards.

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