

**Office of the
Auditor General of Canada**

2002-03 Estimates

**A Report on
Plans and Priorities**

Approved

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

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

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Section I

Messages

Message from the Auditor General



I am pleased to present our 2002–03 *Report on Plans and Priorities* for the Office of the Auditor General. We are an independent audit office that serves Parliament and the well being of Canadians. We promote an accountable, ethical and effective federal public service, good governance, sustainable development, and the protection of Canada’s legacy and heritage. We do this by conducting independent audits and studies that provide objective information, advice and assurance to Parliament, as well as to government, and by working collaboratively with legislative auditors, the government, and professional organizations. I am proud to provide a diverse and respectful workplace in which our employees can realize their full potential and strive for excellence.

During my term as Auditor General, the Office will focus on five areas: accountability to Parliament; an effective public service; Aboriginal issues; the well-being of Canadians (their health, safety, security, and environment); and legacy and heritage. We have begun to develop a new strategic plan for the Office that will establish a framework for directing how these focus areas will affect the audits and studies we have planned for 2003-04 and beyond. An important part of this initiative is to identify performance indicators that will allow us to measure our impact in each of these focus areas.

In 2002–03, we plan to table more than 35 individual value-for-money chapters on a wide range of topics important to Parliament and Canadians. We will also take a new approach to following-up on the progress that the entities we audit have made in implementing our recommendations: we will focus on a smaller number of significant issues that are of interest to Parliament. In October 2002, the Commissioner of the Environment and Sustainable Development will report on the environmental impact of abandoned mine sites in the Canadian North.

In the past year, as part our professional practice activities, we embarked on an ambitious and key internal initiative, which we call Advancing Audit Practices. This initiative supports our continuing search for innovative methods and techniques to do our work better and more efficiently. In 2002–03, as part of the Advancing Audit Practices initiative, we will be acquiring new electronic planning and audit tool sets that will support the implementation of integrated risk-based methodology across the components of legislative auditing.

Since we report to Parliament, it is important that we understand the needs and interests of parliamentarians to serve them better. Early in 2002–03, we will be surveying a sample of parliamentarians to measure how well we are doing this and to identify areas for improvement to the work of the Office.

We view our people as the foundation of the Office’s ongoing vitality and success. Obtaining the input of our employees is critical to providing them with an environment for success. In 2002–03, we will conduct an employee satisfaction survey, which will serve to identify areas of satisfaction and improvement, and which will also be a baseline for measuring improvement initiatives.

In summary, 2002–03 promises to be the beginning of an interesting and challenging journey. I am looking forward to working with my team on developing a strategic plan that supports the vision of the Office — providing interesting and relevant reports to Parliament. I am excited about our planned initiatives to reinvest in our methodology, people and tools that will ensure that the Office remains a centre of excellence in public sector management, widely respected for the quality of our work.



Sheila Fraser, FCA
Auditor General of Canada

26 February 2002

Management representation

Report on Plans and Priorities 2002-03

I submit, for tabling in Parliament, the 2002–03 *Report on Plans and Priorities* (RPP) for the Office of the Auditor General of Canada.

To the best of my knowledge, the information in this document

- accurately portrays the Office's plans and priorities;
- is consistent with the reporting principles contained in the *Guide to the preparation of the 2002–03 Report on Plans and Priorities*;
- 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 production of the RPP.

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*

26 February 2002

Section II

Raison d'être of the Office

The Office's vision and focus areas

2.1 The Office's strategic plan includes a vision statement and focus areas that guide our work.

VISION

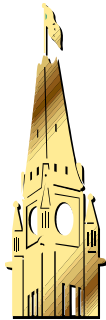
We are an independent Audit Office that serves Parliament and the well being of Canadians.

We promote

- an accountable, ethical and effective federal public service; and
- good governance, sustainable development, and the protection of Canada's legacy and heritage.

We do this by

- conducting independent audits and studies that provide objective information, advice and assurance to Parliament as well as to government;
- working collaboratively with legislative auditors, the government, and professional organizations; and
- providing a diverse and respectful workplace in which our employees can realize their full potential and strive for excellence.



FOCUS AREAS

We will focus our work on five areas:

- accountability to Parliament;
- an effective public service;
- Aboriginal issues;
- health, safety, security and the environment; and
- legacy and heritage.

Mandate, roles, and responsibilities

Enabling legislation

2.2 The *Auditor General Act*, the *Financial Administration Act*, and 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 international organizations.

2.3 The Office is different from departments and agencies in that it is independent from the government and reports directly to Parliament. Our independence is assured by a broad legislative mandate, freedom from certain government controls over our budget and staff, and a 10-year mandate for the Auditor General.

Business line—Legislative auditing

2.4 The objective of the business line of the Office is to provide audit and other appropriate information for use by the House of Commons and territorial legislatures in their scrutiny of government programs, financial activities, and environmental and sustainable development matters. The Auditor General provides Parliament, the government, and Canadians with answers to the following questions:

| Components of legislative auditing¹ | Questions |
|---|--|
| Value-for-money audits of departments and agencies | Are department and agency programs run economically and efficiently, and with due regard to their environmental effects? Does the government have the means to measure the effectiveness of its programs? Is legislation complied with and the public purse protected? |
| Financial audit of the Financial Statements of the Government of Canada | Is the government presenting fairly its overall financial situation in accordance with applicable policies? |
| Financial audits of Crown corporations, territories and other entities | Are Crown corporations, territories and other entities presenting their financial information fairly in accordance with applicable standards? Are they complying with legislative authorities? |
| Special examinations of Crown corporations | Do systems and practices of Crown corporations provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively? |
| Environmental and sustainable development monitoring activities | To what extent did departments and agencies meet the objectives and implement the plans set out in their sustainable development strategies? |
| Assessments of agency performance reports | Are agencies presenting their performance information fairly and in a reliable way? |

¹ These components are explained in more detail in sections 5, 6 and 7 of the *Auditor General Act* and Part X of the *Financial Administration Act*. In all our work, we also consider compliance with authorities.

Reporting our work

2.5 The work of the Office is reported in several forms, as specified in legislation. Our work includes chapters and other audit observations in the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development to the House of Commons; opinions on the financial statements of the Government of Canada, territorial governments, Crown corporations, and other entities; special examination reports to boards of directors of Crown corporations; annual reports on other matters to legislatures of territorial governments; and assessments of the performance reports of three agencies. (For further details, refer to Section VI). We also produce special publications, methodologies, briefings for parliamentary committees, speeches, and management letters to entities we

audit. Our reports and information about the Office are available on our Web site at www.oag-bvg.gc.ca.

Section III

Strategic Outcome

Independent audits and studies that provide objective information, advice, and assurance to Parliament as well as to government that promote an accountable, ethical and effective federal public service, good governance, sustainable development, and the protection of Canada’s legacy and heritage.

Planned results

3.1 Our planned results include audits, opinions, assurance, and advice that are produced in accordance with professional standards and outcomes that lead to accountability and best management practices in the government.

3.2 The Office’s performance measurement and reporting framework uses a results chain to link our outputs—audits, opinions, information, and advice—to our desired outcomes—better managed government programs and better accountability to Parliament and the public. The framework helps us describe the Office’s performance and the difference it makes for Canadians. Exhibits 3.1 and 3.2 provide further details on the framework and results chain. Paragraphs 3.4 to 3.13 describe some outcomes from the results chain presented in Exhibit 3.2. Over the next few years, the Office will refine the definition of these outcomes and how they will be measured.

Outputs and operational processes

3.3 Audits, opinions, information, and advice produced in accordance with professional standards and quality management systems. The Office produces a variety of outputs such as audit information, advice, and assurance. As a professional service organization, the Office must maintain its credibility through adherence to professional standards and quality management systems. Additional details on the outputs we intend to deliver and operational processes are provided under the heading **Outputs and operational processes** on page 15.

Exhibit 3.1 — Our performance measurement and reporting framework

Our framework uses a results chain as the basis for performance management. A results chain links our outputs—audits, opinions, information, and advice—to our desired outcomes—better managed government programs and better accountability to Parliament and the public. It helps describe the Office’s performance and the difference it makes for Canadians. Exhibit 3.2 illustrates in more detail the results chain associated with our outputs.

The left side of the exhibit shows that the Office seeks to make a difference to clients such as parliamentarians of federal and territorial legislatures, audit entity representatives, and the general public. In seeking to make a difference to stakeholders, the Office also works with other legislative auditors, professional associations, national and international standards boards, and other government agencies.

The bottom block of the exhibit specifies the activities that the Office undertakes and the outputs—audit information, advice and assurance—that it produces. The Office largely controls the production of its outputs but has only an indirect influence on the achievement of immediate, intermediate, and end outcomes.

As a professional service organization, the Office must maintain its credibility through adherence to professional standards when working with outside parties. Ways and means must be used to determine the professionalism of the Office’s work, not just by the adherence to professional standards, but also by making reference to the views of affected groups.

The middle block of the exhibit presents a series of immediate and intermediate outcomes that are expected to lead to desired outcomes but are not ends in themselves.

First, the Office seeks to engage various clients, including parliamentary committees, audit entities, and boards of directors in the audit process. For example, parliamentary committees engage in hearings on issues reported.

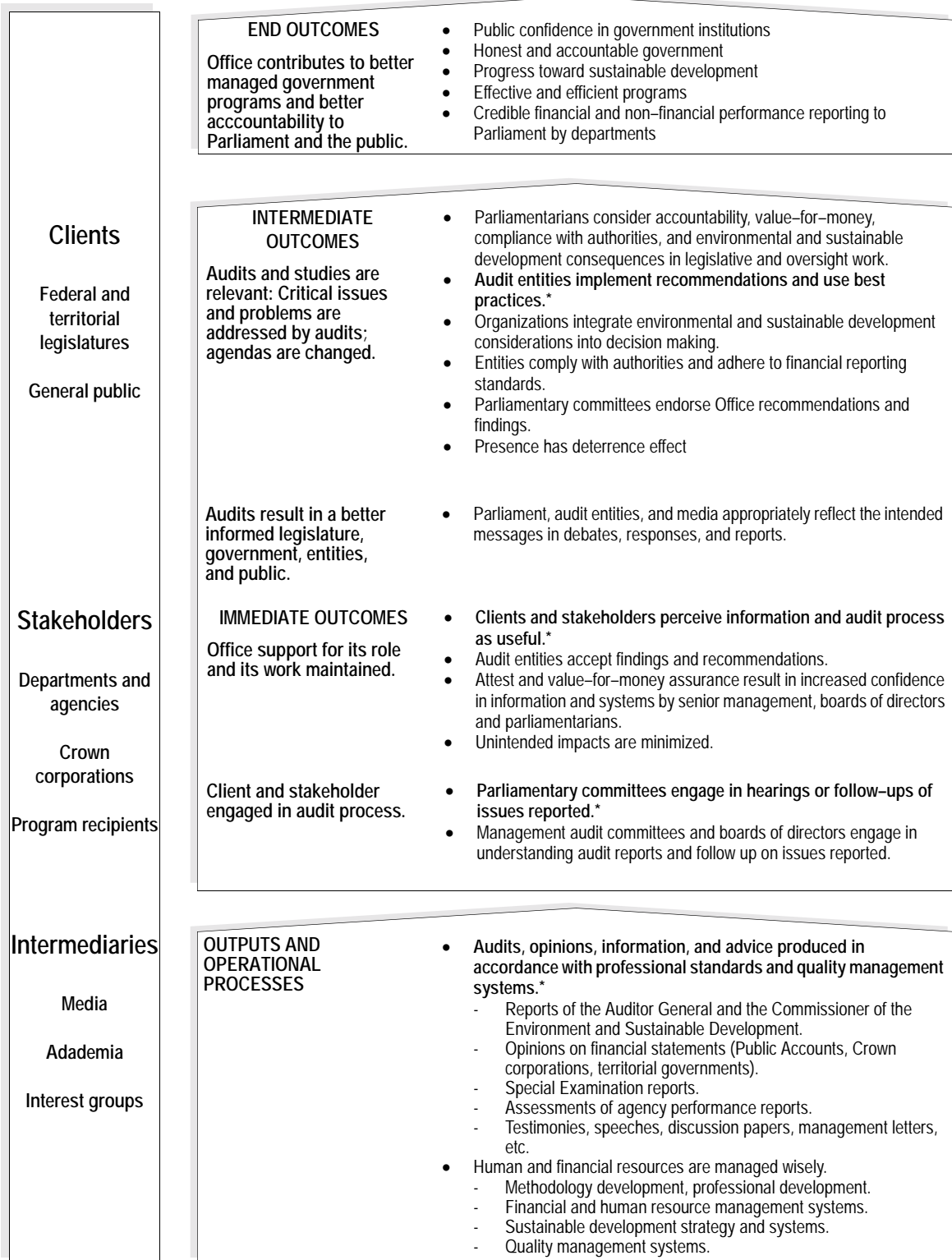
Second, the Office seeks to better inform Parliament, government entities, and the public. The key attributes to be demonstrated in our work are credibility, assurance, accuracy, relevance, timeliness, comprehensiveness, and clarity.

Finally, the Office seeks to effect change through reporting that influences agendas. Such change can be seen as differences (improvements) to departmental knowledge, attitudes, skills, commitment, capacity, and sustained actions that should lead to the end outcomes.

The top portion of the exhibit presents the end outcomes. These include public confidence in strong government institutions, honest and accountable government, effective and efficient programs in government, progress toward sustainable development, and credible financial and non-financial performance reporting to Parliament by departments. We share interest in these outcomes with many other parties inside and outside government, which complicates the task of identifying results that are specifically attributable to our audits. Many share a commitment to good government, and it is through their co-operation and action that we are able to effect change. Where possible, important achievements in these areas will be assessed periodically by specialized studies or evaluations.



Exhibit 3.2 — Results chain



* These results are described in more detail under the heading Planned results on page 9.

Immediate outcomes

3.4 Parliamentary committees engage in hearings or follow-ups of issues reported.

It is important that we understand the needs and interests of parliamentarians to serve them better. We meet frequently with parliamentarians and their researchers to discuss their interests. This year we will survey a sample of parliamentarians to improve our knowledge of their interests and to get their reactions to the work of the Office. We will use the results of a survey to measure how well we serve Parliament and to improve our operations.

3.5 We deal regularly with the Standing Committee on Public Accounts and other committees to communicate issues covered in the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. 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. We expect that about 60 percent of our reports will be the subject of parliamentary committee hearings over the current planning period.

3.6 Clients and stakeholders perceive information and audit process as useful. The feedback we obtain from our stakeholders on the relevance, completeness, and accuracy of the information we provide and the way we conduct our audits is critical to improve our operations.

3.7 Every two years we survey chief financial officers and chairs of audit committees of federal entities and international organizations on the extent to which we are achieving our desired outcomes for annual audits. Our next survey will be based largely on audit work completed in 2002–03. We expect that at least 80 percent of respondents will agree that the annual audit was worthwhile and added value to their organization.

3.8 In 2002–03, we will expand our survey on annual audits to include key stakeholders on the audit of the Financial Statements of the Government of Canada to, among other things, find out if they agree that the audit was worthwhile and added value to the *Public Accounts of Canada*.

3.9 In the third cycle of special examinations completed thus far, 80 percent of the clients surveyed (chairs of the Board and chief executive officers) believed that our special examinations were worthwhile and added value to their organizations. We expect to maintain or exceed that level of satisfaction at the end of the fourth cycle.

Intermediate outcomes

3.10 Audit entities implement recommendations and use best practices. We are committed to improving management practices in the government. Our recommendations are based on relevant data and analysis and are intended to identify areas that need improvement. We do not control the implementation of these recommendations. However, we seek to make practical recommendations and to influence the behaviour of audited entities to implement those recommendations.



3.11 We use a database of recommendations to follow-up on previous audits and track annually the implementation status of our recommendations made in our value-for-money audits of departments and agencies. We expect that at least 60 percent of our recommendations will be implemented or acted upon over a period of five years. We also intend to do further work to determine why 40 percent of our recommendations are not implemented or acted upon.

3.12 The Public Accounts Committee has also expressed interest in receiving information regarding the status of implementation of its recommendations to the House. We will consider ways to do this as we implement our new follow-up approach

3.13 We encourage clients to adopt appropriate accounting standards as part of our annual audits of the Financial Statements of the Government of Canada and over 115 financial statements of federal entities, territories and international organizations. We expect that all these audits will result in opinions that are without reservations. However, management is responsible for the preparation of their financial statements in accordance with appropriate accounting standards. It is our responsibility as Parliament's auditor to express an opinion on their financial statements based on our audit.

Resources

3.14 Exhibit 3.3 provides information on planned spending. In July 2001, the Treasury Board approved increased funding of \$6 million for 2001–02 and \$8 million for 2002–03. We requested this increase in funding to ensure that we continue to meet the needs of Parliament in the years ahead. Specifically, we required more funding to ensure that we continued to have sufficient resources to appropriately fund our value-for-money audits of departments and agencies and invest in methodology, technology, and intellectual capital. At the time of the request, we recognized that these additional funds would not be sufficient to meet all of these needs at once. However, over time we think that a permanent increase of 15 percent (\$8 million) should provide sufficient resources to meet these needs. In 2002–03, we have made methodology, technology, and training of our people a priority (see paragraphs 3.43 to 3.45).

3.15 This funding increase was approved by the Ministers of the Treasury Board on the understanding that the Treasury Board Secretariat, in consultation with the Office, undertakes a process for establishing the Office's future requirements.

3.16 With Public Works and Government Services Canada, we are renewing the current office space for the employees of our Ottawa office. The cost is estimated at \$3.5 million and the Treasury Board has provided \$3 million of this amount in special funding.

3.17 Exhibit 3.3 shows planned program spending without the requested permanent increase of 15 percent (\$8 million) to the budget for 2003–04 and 2004–05. Planned spending has increased in 2002–03 by \$9.8 million from 2001–02. As described above, about half of this increase is to meet our needs for planned value-for-money audit work, investing in methodology, technology and intellectual capital, and for space renewal. The remaining increase is due to an increase in services provided without charge from other

government departments and the forecasted lapse and carry-forward amounts. The forecasted lapse represents spending that was originally planned for work to be done in 2001-02 and has been deferred to 2002-03.

| Exhibit 3.3 – Planned spending | Forecast 2001–02 | Planned 2002–03 | Planned 2003–04 | Planned 2004–05 |
|--|-----------------------------|----------------------------|---|----------------------------|
| (\$ millions) | | | (Exclude permanent funding increase) | |
| Gross program spending | 55.6 | 65.6 | 57.6 | 57.6 |
| Special Funding–Space renewal project | | 3.0 | | |
| Supplementary Estimates and other adjustments | 9.3 | - | - | - |
| | 64.9 | 68.6 | 57.6 | 57.6 |
| (Forecasted lapse) / Forecasted carry-forward ¹ | (2.0) | 2.0 | | |
| Net program spending | 62.9 | 70.6 | 57.6 | 57.6 |
| <i>Less:</i> Non-responsible revenue | (0.8) | (0.8) | (0.8) | (0.8) |
| <i>Plus:</i> Cost of services received without charge | 6.7 | 8.8 | 7.5 | 7.5 |
| Net cost of program | 68.8 | 78.6 | 64.3 | 64.3 |
| Full-time equivalents (FTEs) ² | 520 | 570 | 570 | 570 |

¹ Subject to Parliamentary approval

² For 2002–03 and after we have the authorities for 580 FTEs

3.18 Exhibit 3.4 provides information on our planned spending by component of legislative auditing. The increase in services provided without charge has been allocated in the determination of our net program cost and has increased planned spending for the components of legislative auditing for 2002–03.

| Exhibit 3.4 — Planned spending by component of legislative auditing | | |
|--|-------------------------------------|-------------------------------------|
| (\$ millions) | | |
| Components of legislative auditing | Planned spending 2001-02 | Planned spending 2002-03 |
| Value-for-money audits of departments and agencies | 35.4 | 36.5 |
| Financial audit of the Financial Statements of the Government of Canada | 5.4 | 5.1 |
| Financial audits of Crown corporations and other entities | 16.4 | 17.3 |
| Special examinations of Crown corporations | 2.1 | 4.2 |
| Environment and sustainable development monitoring activities | 2.3 | 2.5 |
| Assessments of agency performance reports | 1.0 | 1.0 |
| Total cost of audits | 62.6 | 66.6 |
| Professional practice | 6.2 | 8.5 |
| Space renewal and office modernization | | 3.5 |
| Net cost of program | 68.8 | 78.6 |



Outputs and operational processes

Focus areas

3.19 The Auditor General has identified five areas that the Office will focus on during her mandate. These focus areas will form part of our new strategic plan and will assist us in planning our audit work for 2003 and beyond. Over the next year, we will identify performance indicators that will allow us to measure our impact in each of these focus areas.

- **Accountability to Parliament** means assisting and supporting Parliament in its work related to the authorization and oversight of government spending and operations. To this end, we will examine new governance arrangements and continue our work in the areas of financial and performance reporting, accountability, and compliance with governing authorities. As well, we will work more closely with parliamentary committees to assist them in carrying out their work.
- **An effective public service** involves assessing the government's capacity to develop policy, deliver programs, and administratively support program delivery. Our work will address areas such as human resource management, financial management, information technology, and knowledge management. We will follow and report on government initiatives in these and other areas with a focus on progress and results achieved.
- **Aboriginal issues** are one of the major challenges facing Canada today. We will concentrate our work on the government programs that influence the social, economic and environmental conditions faced by Aboriginal people and their communities. With a view to improving the efficiency and effectiveness of program delivery, we will pay special attention to the areas of accountability structures, partnerships, and dispute resolution mechanisms.
- **Health, safety, security, and the environment** are issues concerning the well-being of Canadians. These issues are citizen focused and concentrate on the way the government is meeting the needs of Canadians today. We will examine individual programs in each of these areas and we will also assess how well these programs are co-ordinated and managed across government.
- **Legacy and heritage** relates to Canada's cultural, historical, and physical assets, its environment, and its financial situation. As a first step, we must identify and describe the assets and situation that we have inherited from previous generations. We will then assess programs to maintain and develop these assets for future generations.

Value-for-money audits of departments and agencies

| | | |
|-------------------------|---------|----------|
| <i>Planned spending</i> | 2001–02 | \$35.4 M |
| | 2002–03 | \$36.5 M |

3.20 Value-for-money (VFM) or performance auditing examines management practices, controls, and reporting systems with a focus on results. It does not question the merits of government policies; rather, it provides information to help legislators judge how well policies and programs have been implemented. The main products are chapters and other audit observations in the reports of the Auditor General to the House of Commons, but this work can also result in special publications, methodology, briefings for parliamentary committees, speeches, and management letters.

3.21 Value-for-money audits are more discretionary in scope and frequency than either financial audits or special examinations. To identify matters that are of most interest and significance to Parliament, we consider the following:

- the importance of a program or subject, its level of expenditure, its level of interest among members of Parliament, and the degree of risk involved in its delivery;
- the complexity of a program or subject, the level of resources needed to audit it, and whether it falls within the Office’s mandate;
- our five focus areas; and
- past audit coverage by the Office and other reviews carried out by the government or other knowledgeable observers.

3.22 We attempt to schedule VFM audits to cover the most significant issues in a reasonable period. Audit teams develop multi-year audit plans for the federal government’s 25 major departments and agencies and for certain areas that cross departmental lines, such as accountability and results measurement, financial management, human resource management, major capital projects, sustainable development, and information technology. Emerging issues are also evaluated and the audit plans are updated each year. As part of our Advancing Audit Practices project, in 2002–03, we will be improving our planning methodology and supporting tools to incorporate advances in risk assessment methodologies and electronic planning tools (see paragraphs 3.43 to 3.45).

3.23 In the past, it has been our practice to follow up each previous value-for-money audit, normally two years after the original audit. Based on discussions with parliamentarians and our own review, we have concluded that our existing follow-up approach could be more effective in terms of its relevance to Parliament.

3.24 In future follow-up work, we will focus on a smaller number of issues that are of continuing interest to Parliament. For these issues, we will increase our audit effort to provide a higher level of assurance on whether departments have made progress. The report

planned for September 2002 marks the first step toward this new approach. Based on that experience and on further study, we plan to fully implement our new approach by the spring of 2003.

3.25 The progress that departments make toward implementing all of our recommendations remains important to us and to Parliament. We will continue to monitor progress annually, working closely with departmental internal audit staff.

3.26 Our VFM audit plans for 2002–03, together with our April 2003 Report, call for the tabling of over 35 individual chapters, including overviews by the Auditor General and the Commissioner of the Environment and Sustainable Development. These audits, which include planned follow-up work, have been selected to deal with a wide range of topics of importance to Parliament and Canadians. One of the chapters will deal with public monies that have been placed beyond Parliament's reach and another will focus on Canada's criminal justice system. Two more will focus on programs delivered by the Canada Customs and Revenue Agency—one on trade management and another on international tax. There will also be audits of national defence, covering the NATO flying training agreement, and training and test ranges. We will report on northern contaminated sites as well as other northern issues in two more chapters. In addition, we will table a chapter on reporting requirements for the First Nations communities. Heritage Canada and the Canadian Space Agency will both be audited during the period, and we will report on program delivery related to social insurance numbers, government contracting, and the leasing of real property.

3.27 We pay close attention to planning and managing the cost, timeliness, and results of audits. We continue to refine our budgeting and planning process in order to use our resources effectively and efficiently. We set up budgets for all our audits and will publish these budgets with actual resources used.

Financial audit of the Financial Statements of the Government of Canada

| | | |
|-------------------------|----------------|----------------|
| <i>Planned spending</i> | <i>2001–02</i> | <i>\$5.4 M</i> |
| | <i>2002–03</i> | <i>\$5.1 M</i> |

3.28 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 she expresses an opinion on the fairness and consistency of their presentation. In this way, the Office lends credibility to these statements. If the examination discloses that the financial statements contain material misstatements, the Auditor General will qualify her opinion on them.

3.29 The government is in the process of improving the usefulness and timeliness of its financial information by implementing the Financial Information Strategy (FIS). The main elements of FIS are the modernization of systems, the implementation of accrual accounting, and the integration of accrual accounting into day-to-day management. With

the modernization of systems, accounting data were moved from central accounting systems maintained by the Receiver General of Canada to new departmental systems on 1 April 2001.

3.30 The implementation of modern financial systems in departments is having a significant impact on our audit of Canada's financial statements. We are required to assess the internal control environments of these systems for all-major departments and agencies as part of our audit. To support this work, as part of our Advancing Audit Practices project, we are upgrading our financial audit methodology, including the introduction of new electronic audit tool sets, improvements to our risk-analysis methodology, and better integration of financial audit work with non-financial audit work in departments (see paragraph 3.43 to 3.45).

Financial audits of Crown corporations, territories, and other entities

| | | |
|-------------------------|----------------|-----------------|
| <i>Planned spending</i> | <i>2001–02</i> | <i>\$16.4 M</i> |
| | <i>2002–03</i> | <i>\$17.3 M</i> |

3.31 We examine financial statements of 115 Crown corporations, territories, and other entities to express an opinion on the fairness of their presentation in accordance with professional accounting standards. We also examine whether transactions coming to our attention are, in all significant respects, in compliance with key legislative authorities. Our financial audits of these entities provide assurance to ministers, parliamentarians, elected members of the territorial assemblies, and various other stakeholders.

3.32 Our annual audit portfolio continues to grow. In 2002–03 we expect to be auditing, for the first time, the Public Service Superannuation Plan, the Canadian Forces Superannuation Plan, the Royal Canadian Mounted Police Superannuation Plan and the Nunavut Power Corporation.

Special examinations of Crown corporations

| | | |
|-------------------------|----------------|----------------|
| <i>Planned spending</i> | <i>2001–02</i> | <i>\$2.1 M</i> |
| | <i>2002–03</i> | <i>\$4.2 M</i> |

3.33 Special examinations of Crown corporations are required by the *Financial Administration Act* (and in some cases by other legislation) once every five years. In addition, the Governor in Council sometimes asks us to carry out special examinations of Crown corporations that are exempt from this requirement. The private sector does some examinations, a few with us in fact, but we conduct most of them. Legislation requires the examiner to provide an opinion on whether the 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.

3.34 In 2002–03, we will complete the third cycle of special examinations with the examination of the Farm Credit Corporation. We also plan to carry out our first eight special examinations of the fourth cycle (Great Lakes Pilotage Authority, Atomic Energy of Canada Limited, International Development Research Center, National Capital Commission, Atlantic Pilotage Authority, VIA Rail Canada Inc., Cape Breton Development Corporation and Defence Construction (1951) Limited).

3.35 As we begin the fourth cycle, we will implement our updated approach for doing special examinations. Our priorities for the fourth cycle are to better integrate special examination work with our annual financial audits of Crown corporations, to expand the extent of our work on corporate governance, to improve reporting by making our examination report a better communication medium. We also plan to complete each special examination over a shorter period (between 6 to 12 months depending on the size of the corporation) and reduce the total number of audit hours by between 15 percent to 25 percent from the third cycle.

Environment and sustainable development monitoring activities

| | | |
|-------------------------|----------------|----------------|
| <i>Planned spending</i> | <i>2001–02</i> | <i>\$2.3 M</i> |
| | <i>2002–03</i> | <i>\$2.5 M</i> |

3.36 The Commissioner of the Environment and Sustainable Development has a duty to monitor and report on the extent to which departments and agencies have implemented their action plans and met the objectives outlined in their sustainable development strategies. The Commissioner also conducts value-for-money audits and studies of environmental and sustainable development issues, and monitors a process whereby the public can petition government ministers on environmental matters.

3.37 Federal departments produced their first sustainable development strategies in 1997. To date, the Commissioner has reviewed the preparation of those strategies and the development of management systems to support departments in implementing their strategies. In 2001, departments tabled the first update of their strategies. In 2002–03, our audits of sustainable development strategies will report on the performance of departments in moving toward sustainable development. We will look at a sample of departments for indicators of change in the way they carry out their mandates in the context of sustainable development. Also, we will look at the reported performance of departments on selected commitments contained in their strategies.

3.38 As part of ongoing value-for-money audits, the Commissioner plans to examine federal progress on toxic substances, invasive species, abandoned mines in the North, and contaminated sites. The Commissioner also intends to review federal government progress in leading Canada toward sustainable development.

3.39 The petitions process is a vital link to the concerns of Canadians on environmental issues. The Commissioner is committed to making this process more accessible and

understandable. Petitions we receive and the replies of federal departments will be available on our Web site, and we will examine other opportunities for strengthening this process.

Assessments of agency performance reports

| | | |
|-------------------------|---------|---------|
| <i>Planned spending</i> | 2001–02 | \$1.0 M |
| | 2002–03 | \$1.0 M |

3.40 Three government service agencies—the Canadian Food Inspection Agency, the Canada Customs and Revenue Agency, and the Parks Canada Agency—are required to produce annual reports that contain both financial statements and information on agency performance. The Office is required under legislation to provide an opinion on their financial statements and to assess the fairness and reliability of the agency’s performance information. The opinion and assessment are included in the annual reports of the agencies.

Professional practices

| | | |
|-------------------------|---------|---------|
| <i>Planned spending</i> | 2001–02 | \$6.2 M |
| | 2002–03 | \$8.5 M |

3.41 We are committed to continuous improvement to strengthen the Office’s professional practices and to manage the Office’s strategic planning process. Each year, we review our audit operations, internal management, and administration activities. We do this to assess compliance with legislative requirements, professional standards, and Office policies and to identify opportunities for improvement in methodology and practices. Audit methodology and practice exchanges provide a valued input to our evolving practices, the research and development of the latest audit techniques, and our annual methodology development plans for all audit products. The Office achieves this in part through liaison with other legislative audit offices and professional associations such as the Canadian Institute of Chartered Accountants. Major activities for 2002–03 are described below.

3.42 Strategic planning. With the appointment of the Auditor General in May 2001, we are reviewing and updating our strategic plan. We have set a new vision for the Office and defined strategic priorities. The strategic planning process enables our leadership team to develop a shared view of the future direction, strategy and priorities of our Office. It focusses on the changes we need to make in our business and organization to fulfil our mandate to Parliament, and to stay relevant in the years to come. The plan includes several strategic objectives that are critical to our continued success. The Auditor General has also identified five focus areas that will feed into our strategic planning process and will, in particular, assist us in planning our value-for-money audit work for 2003 and beyond.

3.43 Advancing Audit Practices: adapting and fine-tuning audit methodology and tools. Each year the Office develops a consolidated methodology development plan that

steers all new and revised methodology projects. Critical to this initiative is the continuing search for and development of innovative methods and techniques to do our work better and more efficiently. Changes in the public sector audit environment, such as modern comptrollership and new financial information systems, and changes in private sector audit methodologies have meant that we must adapt and fine-tune our audit methodologies and tools to better match these new environments.

3.44 In the past 18 months, we have examined ways in which to change our audit methodologies and tools and selected a course of action with respect to an integrated risk-based planning approach across the components of legislative auditing—value-for-money audits, financial audits of the Financial Statements of the Government of Canada; and audits of Crown corporations, territories, and other entities.

3.45 The second phase of this project is under way and is focussed on implementing our action plan. We are acquiring electronic planning and audit tool sets, training, and methodology, and have worked with staff to prepare for the necessary audit practice changes that will result. This phase will continue in the next year as we implement the new audit tool sets, training, and methodology.

3.46 Knowledge management. We continue to invest in knowledge management using modern technologies to capture and share knowledge more effectively across audit teams that is strategic to audit entities and the work we do. In 2002–03, planned activities include the continued development of entity sites and integration of the electronic tool sets that we plan to acquire to support our Advancing Audit Practices project.

3.47 Practice review and internal audit. Practice reviews of individual audits and practice-wide areas covering all product lines are planned for 2002–03. Internal audits of critical aspects of the Office’s support activities are also planned. These plans are approved by an audit committee that reports directly to the Auditor General.

3.48 External review. We are committed to a regular and ongoing external assessment of our audit quality management systems to ensure their continuing appropriateness and effectiveness. In 1999, a public accounting firm assessed our annual (financial) audits and the results were reported to Parliament in our 1999-2000 *Performance Report*. We are now planning for an external review of the quality management system as it applies to our value-for-money audits. We expect that this review will be completed in 2005.

3.49 International activities. Our international relations program helps strengthen our legislative audit practice and enhances our reputation and credibility in Canada and abroad. Over the past two decades, Canada has become known and respected throughout the world for its expertise in legislative auditing. And our interaction with auditors in other lands has enabled us to keep abreast of international best practices and incorporate them in our work for Parliament. In 2001, we were honoured to receive the prestigious Kandutsch award from the International Organization of Supreme Audit Institutions (INTOSAI). Looking ahead, our long-term strategy is to maintain our presence and network of contacts abroad. Our short-term strategy is to successfully assume two new responsibilities within

INTOSAI—chair of its working group on environmental auditing and chair of a new sub committee on the crucial issue of auditor independence.

Support activities

3.50 As part of its commitment to continuous improvement, the Office has identified the following initiatives to improve the efficiency and effectiveness of its operations.

3.51 Renewal of our human resources. The Office views its people as the foundation of its ongoing vitality and success. Activities in this area include developing and delivering our training curriculum, succession planning, and supporting the modernization of our audit methodology. The internal audit and financial/comptroller communities are actively recruiting the same skills and talent that we are. Therefore, our recruitment and retention tasks are more difficult. In 2002–03, we will focus on an aggressive recruitment and retention strategy and on the continual development of progressive human resource policies.

3.52 Employee satisfaction survey. We will conduct an employee satisfaction survey in 2002-03. This first survey during the present Auditor General's term will set a baseline in many areas of interest and concern to our employees, such as strategic leadership, people, products, and communications. It will establish appropriate and meaningful indicators to serve as a basis for benchmarking, both inside and outside the Office. We will use the survey results to measure and report our success, and to improve Office initiatives. We plan to repeat the survey every two years to measure our progress and to enable us to respond in a timely way to new and continuing issue areas.



Section IV

Organization of the Office

4.1 The Office has an Executive Committee that provides overall professional and administrative direction for the Office. It sets Office policies and oversees all aspects of management and operations in the Office. Its focus is on planning and budgeting as well as the establishment of the organizational framework for conducting audits. It is made up of the Auditor General, the Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, eight assistant auditors general and the Legal Advisor.

4.2 The Panel of Senior Advisors and the Independent Advisory Committee are committees of external advisors to the Auditor General. The Panel of Senior Advisors represents the main groups of stakeholders that the Office deals with, such as government, business, the accounting profession, the academic community, and other parties. Its purpose is to provide strategic advice on the work of the Office. The Independent Advisory Committee, made up of senior accountants, advises the Auditor General on her financial audits of the Financial Statements of the Government of Canada, of Crown corporations, and of other public sector entities. The Committee also helps the Auditor General monitor developments in the accounting and the auditing profession and consider their impact on the work of the Office.

4.3 The Audit Committee provides an oversight role on key aspects of quality and internal controls in the Office. The Committee is made up of senior office auditors and is chaired by an external senior auditor from the private sector.

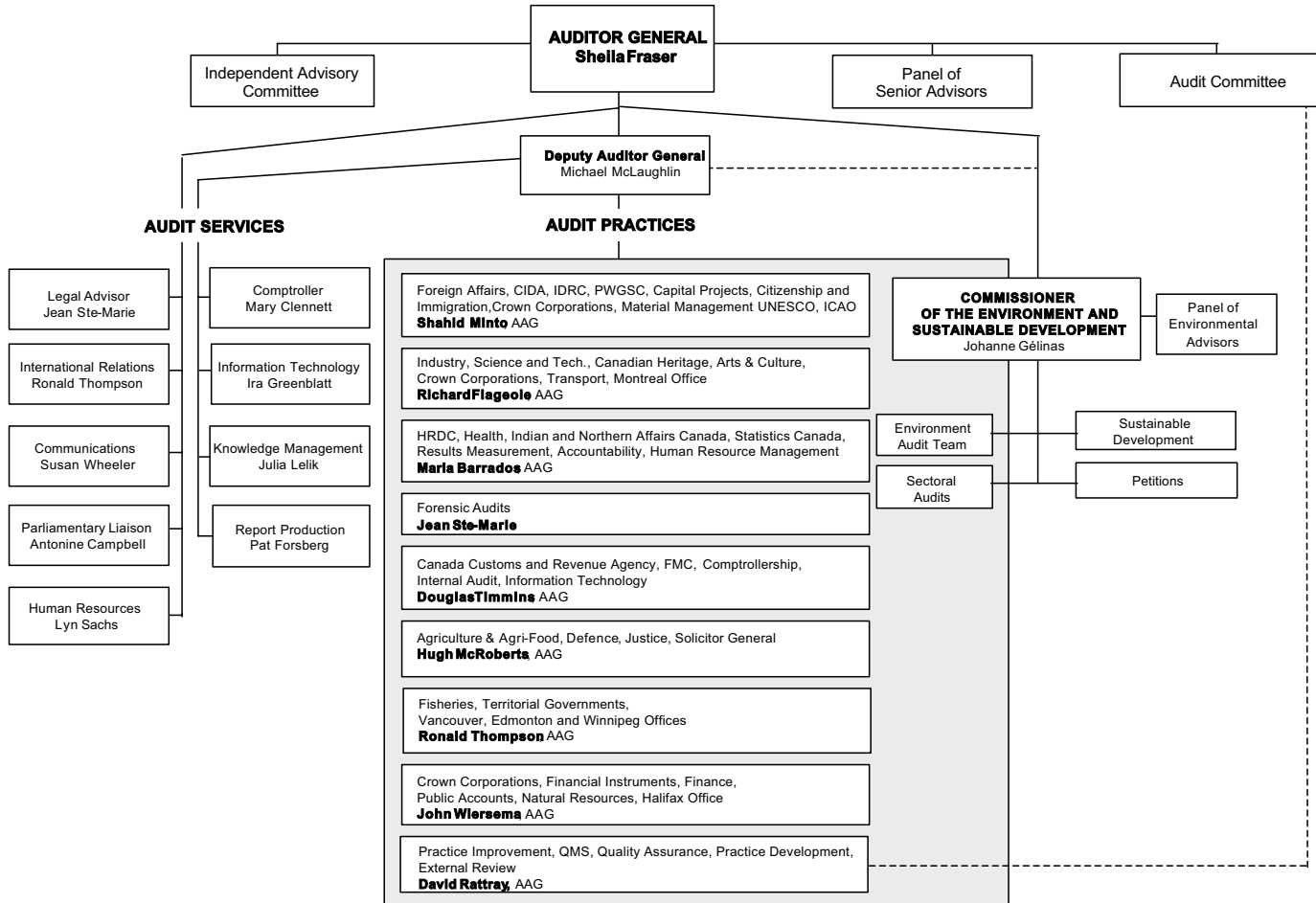
4.4 The Commissioner of the Environment and Sustainable Development is responsible for monitoring and reporting to the House of Commons, on behalf of the Auditor General, on the federal government's performance in protecting the environment and promoting sustainable development. The Panel of Environmental Advisors, made up of representatives from environmental groups, industry, and the academic community, advises the Commissioner on her work and developments in the area of the environment and sustainable development.

4.5 Audit Practices is responsible for carrying out audit and professional practices activities. Our auditors have graduate degrees or professional qualifications in many disciplines. They include accountants, engineers, lawyers, statisticians, sociologists, historians, environmental specialists, and economists.

4.6 Audit Services provides direct support to our audit practices groups. It is made up of the following services: legal, comptroller, international relations, information

technology, communications, knowledge management, parliamentary liaison, human resources, and report production.

ORGANIZATION CHART OF THE OFFICE OF THE AUDITOR GENERAL OF CANADA



Section V

Annexes

Table 5.1 — Details on transfer payment programs (contribution) (\$ millions)

| Business line | Spending | | | |
|--|---------------------|--------------------|--------------------|--------------------|
| | Forecast 2001-02 | Planned 2002-03 | Planned 2003-04 | Planned 2004-05 |
| Legislative Auditing CCAF-FCVI Inc. | 0.4 | 0.4 | 0.4 | 0.4 |

Table 5.2 — Source of non-respendable revenue (\$ millions)

| Business line | Revenue | | | |
|--|---------------------|--------------------|--------------------|--------------------|
| | Forecast 2001-02 | Planned 2002-03 | Planned 2003-04 | Planned 2004-05 |
| Legislative auditing Charges for audits | 0.8 | 0.8 | 0.8 | 0.8 |
| Total non-respendable revenue | 0.8 | 0.8 | 0.8 | 0.8 |

Table 5.3 — Net cost of program for 2002-03 (\$ millions)

| | Total |
|---|--------------|
| Planned spending | 68.6 |
| Plus: Forecasted carry-forward ¹ | 2.0 |
| Less: Non-respendable revenue ² | (0.8) |
| Plus: Services received without charge ³ | <u>8.8</u> |
| Net cost of program⁴ | 78.6 |

¹Subject to Parliamentary approval.

²The Office charges for a small number of audits. The largest billings are to the International Civil Aviation Organization and the United Nations Educational, Scientific and Cultural Organization. These funds are not used by the Office but are returned to the Consolidated Revenue Fund as non-respendable revenue.

³In addition to the budgetary expenditures for 2002–03, there are other costs associated with the operation of the Office. These costs, although not paid directly by the Office, represent services received without charge from other government departments. They are

| | |
|---|------------|
| • Accommodation (Public Works and Government Services Canada) | 5.7 |
| • Employee insurance premiums (Treasury Board) | <u>3.1</u> |
| | 8.8 |

⁴The outputs of the Office are the various audit reports, studies, opinions, and management letters, resulting from the audit process. The Office allocates net program costs to its outputs. In addition to direct costs, which are allocated to each output based on hours worked, certain costs are of an overhead nature (administration, official languages, and accommodation). Overhead costs cannot be directly attributed to our outputs; however, they must ultimately form part of the costs of our outputs. Accordingly, the Office has developed a cost accounting system that allocates overhead to our outputs. Thus, the cost associated with each output is a “fully loaded” cost; the aggregate of all the above costs represents the net program cost of the Office.

Table 5.4 — Horizontal Initiatives – Sustainable Development Strategy

5.4.1 Details of our second Sustainable Development Strategy can be found in Chapter 35 of our December 2000 Report. Key elements of the strategy for the coming year are summarized below. (see Section III, Strategic Outcome–Environment and sustainable development monitoring activities).

Table 5.4.1 — Sustainable development strategy

Goal: The Office is committed to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that its own operations are managed in an environmentally responsible manner.

| Objectives | Measurement tool | Key performance indicators and targets |
|--|---|---|
| <p><i>In our audit work:</i></p> <ul style="list-style-type: none"> • Incorporating environment and sustainable development as an integral part of our audit work. • Helping to strengthen the capacity of federal, territorial and international organizations to continually improve their management of environment and sustainable development issues and delivery of related programs. • Monitoring the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns. | <ul style="list-style-type: none"> • Tracking whether our audits integrate environment and sustainable development issues. • Tracking whether departments and agencies have implemented planned actions identified in their sustainable development strategy or in our reports. • Tracking petitions received and percentage where departments replied in prescribed time frame. | <ul style="list-style-type: none"> • Percentage of planning documents where environment and sustainable development (ESD) issues were significant (20% by 2004). • Percentage of chapters and special examinations that integrated ESD issues—30% of chapters by 2004; Baseline to be established for special examinations. • Percentage of actions planned by departments that have been implemented—50% by 2004. • Percentage of our recommendations related to ESD where entities have made satisfactory progress—65% by 2004. |
| <p><i>In our administrative activities:</i></p> <ul style="list-style-type: none"> • Continually improving our Sustainable Development Management Process. • Reducing consumption and waste. • Purchasing, providing, and using goods and services in an environmentally responsible manner. | <ul style="list-style-type: none"> • Monitor the delivery of our sustainable development management process. • Identify waster reduction opportunities. • Promote reuse. • Develop awareness. | <ul style="list-style-type: none"> • Conduct an internal review every year and an external review by 2004. • Reduce paper consumption per employee by two percent per year. • Establish a baseline dollar value of supplies per employee. |
| <p><i>For our human resources:</i></p> <ul style="list-style-type: none"> • Supporting activities that recognize our employees as our greatest assets in pursuing our sustainable development objectives. | <ul style="list-style-type: none"> • Increase environmental knowledge and awareness of our employees. • Provide information support and guidance. | <ul style="list-style-type: none"> • Number of learning events—7 per year. • Employees able to recognize sustainable development audit issues—Baseline to be established. |

Section VI

Other Information

Crosswalk between our 2001–02 and 2002–03 reports on plans and priorities

The purpose of this crosswalk is to facilitate the comparison of our 2001–02 and 2002–03 reports on plans and priorities.

Section II–Raison d’être of the Office contains similar information to last year’s report that was found in the Overview of the Office section. This section describes the Office’s fundamental purpose and how it will benefit Canadians.

Section III–Strategic Outcome replaces Plans, Results, Activities, and Resources. It integrates our performance measurement and reporting framework and consolidates information on our planned audits and explanations under our six business-line components.

Section IV–Organization of the Office describes how the Office is organized and who is accountable.

Sections V and VI are similar to reports of previous years.

Statutory reports

| | |
|---|---|
| <i>Report of the Auditor General of Canada to the House of Commons</i> | Published periodically and available in a variety of formats and on the Internet at www.oag-bvg.gc.ca . |
| <i>Report of the Commissioner of the Environment and Sustainable Development to the House of Commons</i> | Published annually and available in a variety of formats and on the Internet at www.oag-bvg.gc.ca . |
| Opinion of the Auditor General on the Financial Statements of the Government of Canada | Published annually in the <i>Public Accounts of Canada</i> , Volume I and available on the Internet at www.pwgscc.gc.ca/text/pubacc-e.html . |
| Opinion on the Condensed Financial Statements of the Government of Canada | Published annually in the <i>Annual Financial Report of the Government of Canada</i> . |
| Opinions by the Auditor General on 115 financial statements of parent Crown corporations, federal departmental corporations and other federal entities, territorial governments and organizations, other Canadian entities, and international organizations | Published in various statutory reports containing the financial statements of these organizations. |
| Special examinations of Crown corporations | Submitted to the respective boards of directors every five years for each Crown corporation. |
| 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 the assemblies. |
| Assessment of three agency performance reports — the Canada Customs and Revenue Agency, the Canadian Food Inspection Agency, and Parks Canada | Submitted annually to the respective management boards. |



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