

**Office of the  
Auditor General of Canada**

**Performance Report**

**For the  
period ending  
31 March 2003**



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**Sheila Fraser, FCA  
Auditor General of Canada**

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**Honourable John Manley, P.C., MP  
Minister of Finance**



**Making a difference . . . for 125 years**

In 2003, the Office marks the 125th anniversary of the appointment of the first independent Auditor General of Canada. Both sides of the House of Commons cheered when the government of Alexander Mackenzie proposed the 1878 bill that would “free the auditing of Public Accounts from any interference on the part of the administration.” That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

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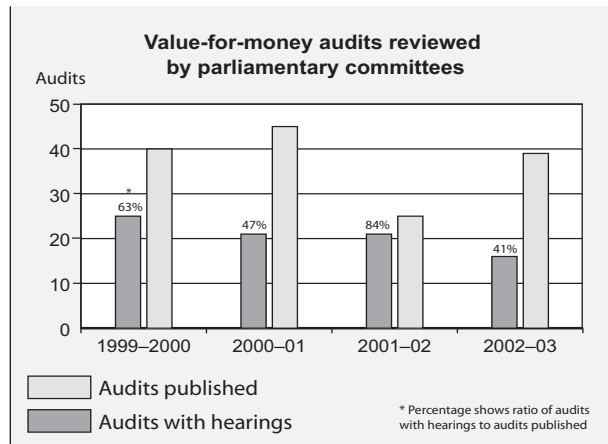


# Performance at a Glance

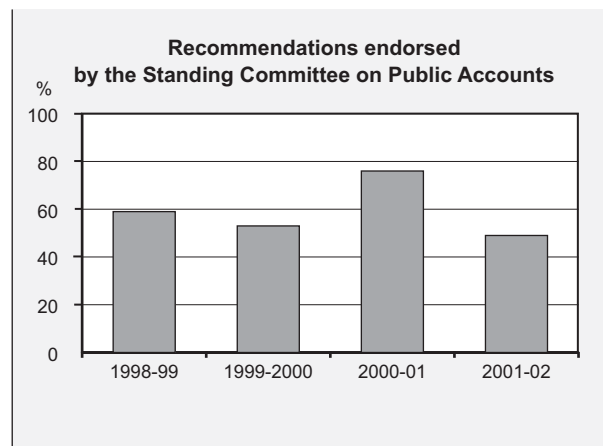
This *Performance Report* presents our performance story in terms of the results chain that we introduced two years ago (page 20). The results information in this report shows how our audit reports, opinions, and other products all contribute to our ultimate objective of better managed government programs and better accountability to Parliament and Canadians.

## 2003 Performance Highlights

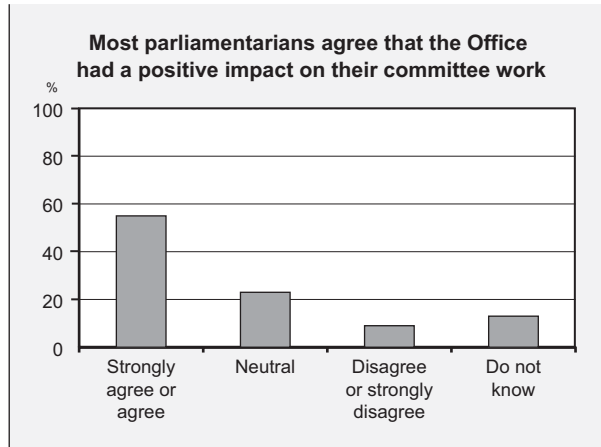
**Parliamentary committees held hearings on 41 percent of our value-for-money audits.** We expected that about 60 percent of our 2002–03 value-for-money audits would be the subject of parliamentary committee hearings. Our performance of 41 percent reflects, in part, the effect of multiple hearings on a single audit. For example, the Standing Committee on Public Accounts held five hearings on the report to the Minister of Public Works and Government Services on three contracts awarded to Groupaction. There was also more than one hearing on the Canadian Firearms Program and the integrity of social insurance numbers.



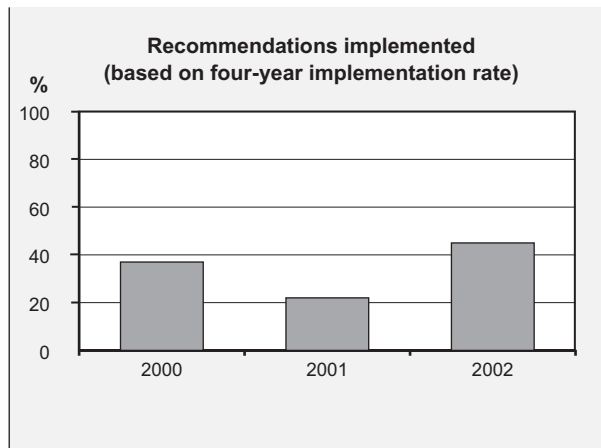
**The Standing Committee on Public Accounts endorsed 49 percent of our recommendations.** The endorsement of our value-for-money audit recommendations by the Standing Committee on Public Accounts is an important indicator of the quality of our work. As the Committee has not yet issued all of its reports for hearings held in 2002–03, results are partial and have not been included in the chart. The Committee also asks departments to submit action plans and progress reports on implementing recommendations contained in our value-for-money audits. We believe that this is also a strong indication of endorsement.



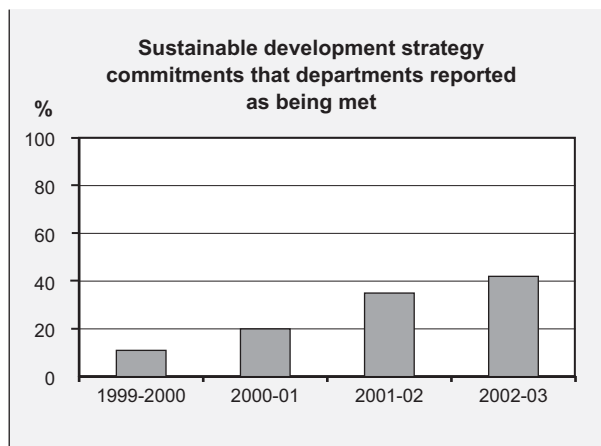
**Over half of parliamentarians surveyed agreed that the Office had a positive impact on their committee work.** In a survey of parliamentarians we conducted in early 2002, 55 percent of the parliamentarians agreed that the recommendations and findings of the Office had a positive impact on their overall committee work. We will repeat the survey in spring 2005 and have set a target of 75 percent.



**According to organizations where we have conducted value-for-money audits, 45 percent of our 1998 recommendations are fully implemented.** We measure our impact in improving the government's accountability, operations, and services by determining the percentage of recommendations we made four years ago that have since been fully implemented. By the end of 2002, 45 percent of our 1998 recommendations had been implemented. This result shows an improvement over previous years. In 2002, we modified this performance indicator to focus more directly on departments' success in fully implementing our recommendations after a reasonable time. In the coming years, we will establish a baseline that will enable us to set a target.



**Departments reported having met 42 percent of the commitments made in their first sustainable development strategy.** While this represents some improvement over previous years, the quality of reporting in the performance reports leads us to question the reliability of that figure.



## Other highlights

**Accountability to Parliament.** This year, we are reporting on actions taken to improve accountability to Parliament. One of the key result areas that we are working toward is enhanced parliamentary scrutiny of government spending.

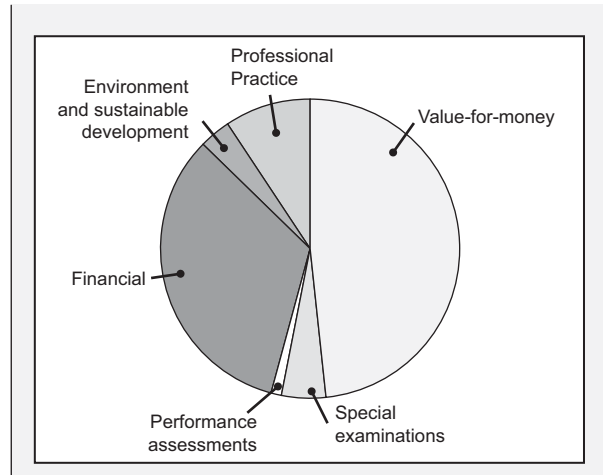
**What has changed?** In April 2003 we tabled a revised paper, *Parliamentary Review of the Estimates Documents* (first issued in 1998), with the Subcommittee on the Estimates Process of the new Standing Committee on Government Operations and Estimates. Recently, members of Parliament have demonstrated greater interest in the review of Estimates in committee. We responded by providing more support to committees, through our testimony at five hearings and our paper on the review of the Estimates documents. In addition to the Standing Committee on Government Operations and Estimates, a number of other standing committees have looked into departmental spending and reported to the House of Commons on the Estimates.

**Financial performance.** In 2002–03, we reported on the results of: 21 value-for money audits; over 100 financial statement audits; including that of the Government of Canada; 6 special examinations; and 3 assessments of agency performance reports.

In 2002-03, the net cost of operations for the Office was \$78.3 million, the Office used \$71.7 million of the \$73.8 million in parliamentary appropriations approved. Accounting for services provided without charge, capital assets and employee benefits make up the difference between the net cost of operations and the use of parliamentary appropriations.

The Office used 565 full-time equivalent (FTE) of employees, which represented 99 percent of our budget of 570 FTEs.

**Cost of operations**







# SECTION 1 — Message

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**Sheila Fraser**  
Auditor General of Canada

I am pleased to present this *Performance Report* and privileged to serve as Auditor General of Canada as the Office celebrates its 125th birthday.

In 1878, both sides of the House of Commons cheered when the government of Alexander Mackenzie proposed the bill that would “free the auditing of the Public Accounts from any interference on the part of the administration.” That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

Although we have a long and valued history, we cannot rest on our laurels. Our Office is committed to finding new and dynamic ways to uphold and communicate our mandate, while continuously improving our practices and products. This *Performance Report* tells the story of how we are trying to do that.

It’s now two years into my term, and I’ve heard from Canadians throughout the country. They all expect similar things from government—that programs and services are managed with due diligence, that they get value for their tax dollars; and that government and its officials are honest, forthcoming, and accountable for their actions.

By scrutinizing the areas of highest risk in government through our audits, by evaluating the progress of government-wide management reforms, and by encouraging the provision of sound information to Parliament, my Office plays a vital role in safeguarding and fostering accountable, well-managed, and environmentally responsible government.

We do this, not only by exposing flaws, but by making sound suggestions for improvement.

The 21 value-for-money audits we produced in 2002-03 contained 146 detailed recommendations on issues ranging from the costs of implementing the Canadian Firearms Program to federal support for health care delivery.

In 2002, the Commissioner of the Environment and Sustainable Development, an important part of the Office of the Auditor General, tabled a report targeting the government’s failure to properly manage key environmental challenges. The Commissioner, Johanne G  linas, and her team provided solid recommendations for dealing with toxic substances, contaminated sites, abandoned mines, and invasive species.

Parliamentarians have the important task of ensuring that action is taken to correct the problems we identify. After our reports are tabled, we are invited to appear before the Standing Committee on Public Accounts to expand on our recommendations. Members of the Committee showed great interest in our reports in 2002-03, and we participated in a



record 29 hearings and four briefings with the Standing Committee on Public Accounts. The Committee endorsed 49 percent of the recommendations in the audit reports they reviewed. We appeared before a variety of other parliamentary committees as well.

We are constantly seeking better ways to help Parliament do its work. In a May 2002 survey, members of Parliament said they viewed us as a very credible source of information about government operations, and that they wished to have more personal and frequent communication with us. We have put in place a strategy to meet this need.

What happens after Parliament endorses our recommendations? Does anything change? To better answer this question, we introduced a Status Report in the fall of 2002. To prepare this report, we go back and re-audit important and potentially high-risk areas to see what government has done to address the problems we identify. When progress has been made—and we do find it—we are happy to tell the story and applaud the achievement.

I am heartened by the interest being shown by parliamentarians in the process of reviewing the government's Estimates—the importance of which was thrown into sharp relief after our audit of the Canadian Firearms Program observed that Parliament had not been well enough informed about its escalating costs. Some committees have asked us to support them in their review of the Estimates, and we have been very pleased to do so.

In addition to our ongoing work of financial and value-for money auditing, this period also saw the Office responding to special requests and taking on new audits.

The most well-known of these was the audit we were asked to do by the Minister of Public Works and Government Services Canada of three contracts to a public relations firm under the government's sponsorship program. We found major shortcomings at all stages of the contracting process. We concluded that the government did not get everything it paid for and that payments were approved for work that did not always satisfy the requirements of the contracts.

To me, this was an exceptional case, and not at all typical of how public servants operate. Ultimately, I referred the matter to the Royal Canadian Mounted Police. We also launched a government-wide value-for-money audit of all federal advertising and sponsoring programs.

We also accepted a request from the Legislative Assembly of the Northwest Territories to do a special audit of the termination compensation paid to two senior officials of the Government of the Northwest Territories. We found that the compensation exceeded what had been set out in the officials' employment agreements and did not comply with the government's policies. Since we could find no justification for paying these officials significantly higher termination payments and benefits, we concluded that the Government of the Northwest Territories did not handle the matter reasonably and with prudence.

In 2002-03, the Office made a foray into another area of work when we were asked by the federal government to assess its progress in developing, with its provincial counterparts, a comprehensive framework for reporting health indicators to Canadians. We assessed the



health indicators themselves, which touch on the health status of Canadians, health care outcomes, and the quality of health care services. In my view, our opinion on their validity makes these reports more credible. We also provided audit opinions for the first time on the financial statements of three federal public service employee pension plans with pension liabilities of about \$120 billion.

At the same time as we embark on new areas of work, we are committed to improving the effectiveness of our ongoing operations. In 2002-03, we undertook a far-reaching project to modernize our audit practices in an effort to maintain the high quality of our products. This project, which involved training 250 auditors in new technology, methodology and practices, has resulted in significant changes in the way we work on a day-to-day basis. While this has been a major accomplishment, the work will continue into 2003-04. I'm pleased to see that, today, more than ever, we focus on key business risks when we audit.

As a knowledge-based organization, we recognize that our people are our lifeblood. In 2002, we conducted a survey of employee views on their work environment, and we found that 88 percent of our people felt that the Office was a good place to work. Within this overall positive evaluation, however, employees identified a desire for more time and additional resources to do their jobs. We will address this directly in the upcoming year by striving to improve operational effectiveness.

Since renewing our work force is vital to our continued vitality and success, recruitment and retention were key goals in 2002-03. We were successful in attracting and training topnotch students. As part of our efforts to retain highly qualified staff, we reviewed salaries and introduced a rewards and recognition program. The goal of this program, called Bravo, was to firmly embed recognition and appreciation into our organizational culture, thus improving our employees' workplace experience.

Many people ask me who audits the Auditor General. This is a question that I take very seriously, given my Office's deep commitment to accountability and transparency. And indeed, in 2002-03, we began preparations to undergo a peer review of our value-for-money work by a team of international experts in 2003-04. We are proud to be the first national audit office to be scrutinized in this way, and we are looking forward to the lessons that will emerge from the process.

Finally, I would like to express my appreciation to the staff of my Office. Their dedication and commitment to quality continues a long tradition of service to Canadians.



Sheila Fraser, FCA  
Auditor General of Canada



## **Management's statement of responsibility for performance information**

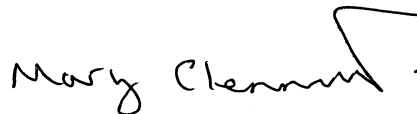
Management of the Office of the Auditor General of Canada is responsible for the preparation of this Performance Report. The Report was prepared under the direction of the management of the Office and in accordance with Treasury Board guidelines on performance reporting to Parliament.

In meeting its reporting responsibility, management has established and followed policies and procedures and systems of internal control designed to provide reasonable assurance of the fairness and reliability of performance information. The Office is gradually improving its financial and performance information, introducing new measures and enhancing the data collection for others. Plans for this improvement are indicated in the report. However, this is the best information available, and management considers it reasonable for the purpose of preparing this performance report. Some of the information is based on management's best estimates and judgements. Limitations on the quality of the data provided are disclosed in the Report.

The Office's Executive Committee oversees management's preparation of the Performance Report and approves the final Report. The Audit Committee, chaired by an external person, reviews the Report and provides advice to the Executive Committee on the performance information.



Sheila Fraser, FCA  
Auditor General of Canada



Mary Clennett, CA  
Comptroller and  
Senior Financial Officer

Ottawa, Canada  
22 September 2003



# SECTION 2 — Context

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## Our vision

**An independent audit office serving Parliament and the well-being of Canadians, widely respected for the quality and impact of our work.**

We promote

- accountable government,
- an ethical and effective 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, government, and Canadians;
- working collaboratively with legislative auditors, federal and territorial governments, and professional organizations; and
- providing a respectful workplace in which our diverse workforce can strive for excellence and realize their full career potential.

## Our values

We have six values that define how we conduct our work and ourselves:

- independence and objectivity,
- serving the public interest,
- commitment to excellence,
- respectful workplace,
- trust and integrity, and
- leading by example.

## Who we are

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.

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 spending and staffing, and a 10-year term for the Auditor General.



**Our independence.** Recent financial scandals in private sector companies have raised a number of questions about the auditor's role and independence. As the auditor of the federal government, there are mechanisms in place to ensure the independence of the Office:

- The Auditor General is appointed for a 10-year term that is not renewable.
- The Auditor General's conclusions are directly presented to Parliament.
- The Auditor General is accountable to Parliament, not to the government of the day.
- The Auditor General can ask the government for any information she needs to carry out the Office's mandate.
- The Office does not depend on receiving fees for its services from departments, agencies, and Crown corporations that it audits. Rather, the Office is funded by Parliament.

**Our funding.** The appropriate level of funding for the Office must be determined in an objective manner that is not influenced by those we audit. The existing process for arriving at our funding level is not sufficiently independent and impartial to ensure that our budget is appropriate for meeting Parliament's expectations.

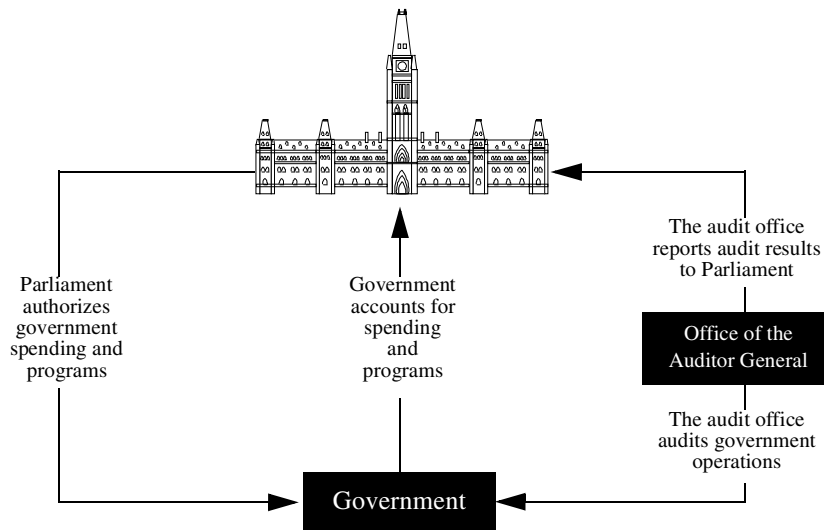
We are discussing alternative funding mechanisms with the Treasury Board Secretariat for determining future years' funding of the Office's requirements. At present, like almost all federal departments and agencies, we negotiate our budget with representatives of the Treasury Board Secretariat. So far this has not caused a problem, but as a matter of principle, we believe that this situation should be corrected so there is no possibility of influence, real or perceived. Such a process should establish a balance between the independence of the Auditor General and the rightful challenge to our expenditure of public funds.

## **Our role: To aid accountability**

The Auditor General is accountable to Parliament, not to the government of the day (Exhibit 1). The Auditor General's primary relationship is with the House of Commons' Standing Committee on Public Accounts. In turn, much of the work of the Public Accounts Committee draws on the work of the Auditor General and her Office. The Auditor General also works with other standing committees and parliamentary groups. The Auditor General, like government departments, submits annual spending estimates and a performance report to the Treasury Board for tabling in the House of Commons. The Public Accounts Committee calls on the Auditor General to explain the spending and performance of the Office.



*Exhibit 1 – Auditor General’s role in the accountability process*



Supporting and promoting accountability is an important part of our work with Parliament. The Auditor General aids accountability by conducting independent audits of federal government operations. These audit reports are tabled in the House of Commons and provide members of Parliament with objective information to help them examine the government's activities and hold it to account.

The Office has an Executive Committee that provides overall professional and administrative direction for the Office. It sets Office policy and oversees all aspects of management and operations in the Office. It comprises the Auditor General, the Commissioner of the Environment and Sustainable Development, and the assistant auditors general. The Office organization chart is available on our Web site at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

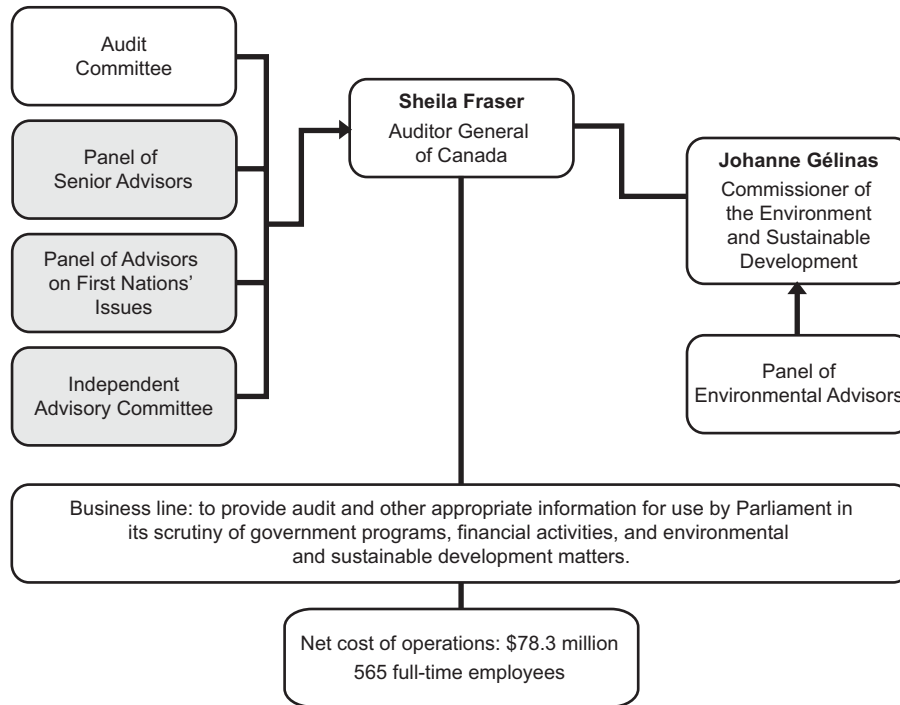
The Auditor General receives advice from a number of external committees (Exhibit 2).

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 a senior executive from the private sector.

The Panel of Senior Advisors represents the main 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.



*Exhibit 2 – External committees and business line*



External advisors to the Auditor General

The Panel of Advisors on First Nations' Issues includes aboriginal and non-aboriginal leaders. It assists the Auditor General in focussing on critical matters affecting Canada's native people and communities.

The Independent Advisory Committee, made up of senior accountants and financial consultants, advises the Auditor General on the financial audits of the financial statements of the Government of Canada, Crown corporations, territorial governments, and other organizations. The Committee also helps the Auditor General monitor developments in the accounting and auditing profession and consider their impact on the work of the Office.

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, which is 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.





## What we do: Legislative auditing

The objective of legislative auditing is to audit and provide appropriate information for use by Parliament 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 many important questions (Exhibit 3).

### *Exhibit 3 – The Auditor General answers many important questions*

Components of legislative auditing <sup>1</sup>	Questions
Value-for-money audits of departments and agencies, including audits on the environment and sustainable development	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?
Audit of the summary financial statements of the Government of Canada	Is the government presenting fairly its overall financial situation in accordance with applicable standards?
Financial audits of Crown corporations, territorial governments, and other organizations	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, including the petition process	To what extent did departments and agencies meet the objectives and implement the plans set out in their sustainable development strategies? Are ministers responding as required to environmental petitions?
Assessments of agency performance reports	Are agencies presenting their performance information fairly and in a reliable way?

<sup>1</sup> These components are explained in more detail in sections 5, 6, 7, and 23 of the *Auditor General Act* and Part X of the *Financial Administration Act*. In all our work, we also consider compliance with authorities.

## Who we serve

Our primary responsibility is to Parliament, and our relationship with parliamentarians is key to our effectiveness. We assist Parliament in its work related to the authorization and oversight of government spending and operations.

The Standing Committee on Public Accounts, the Standing Committee on Environment and Sustainable Development, the Standing Senate Committee on National Finance, and other parliamentary committees play a crucial role in helping promote accountability, good management practices, and sustainable development. Committee hearings are an important means to promote awareness and understanding of the issues covered in our reports. Hearings also help gain departmental and agency commitment to implement our recommendations.



After the hearings, the committees may report and make recommendations to the government. The audited departments and agencies are generally expected to report back on what they have done in response to the recommendations.

Finally, we assist the boards of directors of Crown corporations in fulfilling their governance responsibilities through our annual financial statement audits and special examinations. Also, as the legislative auditors of the three territories, we work with government officials and managers of territorial corporations to identify issues of mutual concern, improve systems and processes, and promote improved public accountability.

## **Key partners and relationships**

**We work collaboratively with the Canadian Council of Legislative Auditors.** We are a member of the Canadian Council of Legislative Auditors (CCOLA), which comprises the 10 provincial auditors general, provincial auditors, and the federal Auditor General.

An example of a collaborative initiative with CCOLA is the joint audit work on health indicators. In September 2000, the First Ministers directed provincial and federal governments to report publicly on certain health indicators. Legislative auditors coordinated their work through CCOLA to provide third-party verification of the data in their respective jurisdiction's report. Our Office verified the federal and territorial reports, conducted an audit of two major sources of health data (Statistics Canada and Health Canada), provided reliance reports to our CCOLA colleagues on these two sources, and worked in partnership with two provincial audit offices on the data quality systems in a third source of health data. All 14 federal, provincial, and territorial governments published their health indicators reports in September 2002.

One way of assessing an organization's performance is to compare it with other similar organizations. In Canada, we have provincial counterparts, the legislative audit offices that provide similar services and products in each province. Working through CCOLA, the federal and provincial legislative audit offices have a project under way to define a set of common performance indicators. They have reached an agreement on a limited number of key performance indicators, and are developing methodologies for consistent measurement. In the future, this project should provide one means to compare our performance with other legislative audit offices in Canada.

**We work collaboratively with the International Organization of Supreme Audit Institutions (INTOSAI).** We chair and participate actively in the activities of INTOSAI, the professional organization of approximately 180 national audit offices from around the world.

The Office contributes to INTOSAI by participating in the work of a number of its committees and working groups. These include the Committee on Information Technology Audit, the Public Debt Committee, the Sub-Committee of the Auditing Standards Committee, and the Environmental Working Group. We also serve on the Board of the INTOSAI Development Initiative, an international training and capacity-building organization headquartered in Norway.



As the Chair and Secretariat of the INTOSAI Working Group on Environmental Auditing (WGEA), the Office exercises its leadership in supporting the WGEA members, organizing meetings and conferences, maintaining the WGEA Web site, and implementing the WGEA's work plan for 2002–04.

In 2002, Canada and 180 other countries attended the World Summit on Sustainable Development in Johannesburg South Africa. The outcomes of this Summit, principally the Johannesburg Plan of Implementation, represent Canada's most recent and comprehensive commitment to sustainable development—poverty eradication, management of our forests, oceans, and other natural resources; sanitation; energy conservation; and sound management of chemicals and wastes. The Plan has important implications for Canadians.

During the Summit, the Commissioner of the Environment and Sustainable Development hosted a seminar promoting good governance and called on the Government of Canada to develop its own detailed and concrete plan of action for implementing the Johannesburg Plan. She has since been working actively with departments and members of the parliamentary Standing Committee on Environment and Sustainable Development to assist them in achieving this plan.

We also chair the INTOSAI Independence Sub-Committee. Our goal is to define more precisely the characteristics of an independent national audit office and present this model at the next triennial 2004 Congress of Supreme Audit Institutions. Also, we will chair a discussion on the co-ordination of audit efforts among national, regional, local and self-governing bodies at the Congress.

**Other collaborative work with legislative auditors.** The Auditor General participates each year in an informal global working group in which the auditors general from G7 countries and other selected countries meet to discuss strategic plans and issues of mutual concern.

We play an active role in the training of legislative auditors from developing countries. Working with the CCAF-FCVI Inc. and with funding from the Canadian International Development Agency (CIDA), we run an annual nine-month training program. This year we trained six auditors from Chile, Dominica, Guyana, Sri Lanka, Thailand, and Tunisia.

Also we are providing methodology and training in value-for-money auditing to the Russian national audit office, working through the Canada-Russia parliamentary program and with CIDA funding.

**We work collaboratively with federal and territorial governments.** We collaborate with federal government departments and agencies on a wide range of issues and initiatives to improve accountability and public sector management.

In 2002–03, we completed a joint project with the Treasury Board Secretariat to produce a Managing for Results Self-Assessment Tool that departments and agencies can use to assess their progress toward results-based management. The self-assessment tool is intended to help them identify strengths and weaknesses in managing for results and build



action plans for improvement. It was developed with the help of a departmental advisory committee and, throughout its development, several departments tested the tool to assure its relevance and practicality.

In the three territories, we work with government officials and managers of territorial corporations to identify issues of mutual concern, improve systems and processes, and promote improved public accountability.

**We work collaboratively with professional organizations.** A number of our employees are involved with national and international standards setting bodies, and other professional organizations that are engaged in the advancement of legislative auditing. The Auditor General is a member of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, which develops public sector accounting standards. Other Office members sit on various Institute committees such as the Assurance Standards Board and the Assurance Services Development Board. We also have employees participating in the work of standard-setting bodies dealing with environmental management, auditing, and performance evaluation. Internationally, one of our employees sat until November 2002 on the Public Sector Committee of the International Federation of Accountants, which sets standards for public sector accounting and reporting.

Our employees also participate in the activities of many more professional organizations, contributing to the improvement of legislative auditing, such as the Canadian Evaluation Society, CCAF-FCVI Inc., the Financial Management Institute, and the Institute of Internal Auditors. We are also involved with a number of international bodies, including the Panel of External Auditors of the United Nations.

## **How we assess the quality of our work**

An important part of the confidence that people have in our democratic institutions is their belief that public funds are spent wisely and effectively. Members of Parliament and the public look to the Auditor General for independent, objective, and supportable information they can rely on to examine the government's performance and hold it to account. In order to maintain the confidence of members of Parliament and the public, it is essential that legislative audit offices operate in conformance with their legislative authorities and adhere to established standards of professional practice.

The Office's audit work is guided by a rigorous methodology and quality management framework intended to provide reasonable assurance that the Office discharges its legislative authorities in accordance with established standards of professional practice and with due regard to economy, efficiency, and effectiveness.

Our Professional Practices Group conducts reviews of our audit operations, internal management, and administration activities to ensure that we conform to standards and policies and to identify areas for improvement.



An audit committee plays an oversight role on key aspects of quality and internal controls, and approves plans for internal audits and reviews. The committee is made up of senior office employees and is chaired by an external member from the private sector.

The audit committee met six times during 2002–03. It reviewed and suggested improvements to the Office’s financial statements and recommended their approval to the Auditor General. The committee examined and provided advice on the Office’s draft *Report on Plans and Priorities* and its draft *Performance Report*. The committee also reviewed the findings from several practice reviews and internal audits.

### **The quality of our audit work**

**Internal practice review.** We have implemented a quality management framework that covers all of our audit product lines, including financial audits, value-for-money audits, and special examinations. Executive summaries of our internal practice reviews are available on our web site at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

The reviews of financial audits focus on the effective application of the quality management framework as well as compliance with legislative requirements, professional standards, and Office policies. In 2002–03, the Professional Practices Group reviewed five financial audits and reported no significant shortcomings.

In its review of nine value-for-money audits reported in 2001 and April and May 2002, the Professional Practices Group focussed on compliance with our value-for-money audit policies and the effective implementation of our quality management framework.

Finally, the Professional Practices Group conducted a limited review of 10 plans and reports of special examinations. The objective was to assist practitioners in determining how to address challenges in audit methodology and practices in special examinations.

**Professional standards reviews.** The provincial institutes of chartered accountants periodically perform professional standards reviews of the Office's annual financial auditing practice. These reviews are part of the requirements for certification relating to training chartered accounting students. Each of our five regional offices and our Ottawa office are subject to professional standards reviews every three to five years, depending on the individual provincial institute's requirements. Each of the offices has been reviewed in the last three years and the reviews found that the requirements for certification were being met and that professional auditing standards were being followed in all cases.

**External review.** We are committed to a regular and ongoing external assessment to ensure that our audit processes and practices remain robust and effective.

During 2002–03, we completed planning for an external peer review of the quality management framework as it applies to our value-for-money audits. A group of representatives from seven national audit offices developed a peer review approach and process setting out the scope, objectives, and criteria for the review.



The peer review of our value-for-money audit practice will be led by the National Audit Office of the United Kingdom. The peer review team will include representatives from the national audit offices of France, Norway, and the Netherlands. The team will conduct an independent and objective review in accordance with a process incorporating commonly accepted principles of performance auditing. The General Accounting Office of the United States will participate as an observer.

We expect to receive the final report early in 2004. We will be the first national audit office to be reviewed by a team of international peers. We will demonstrate our commitment to open transparent governance by making the peer review results public, including any recommendations for improvements.

### **The quality of our business processes**

**Internal audit.** The Professional Practices Group completed an audit of the Office's headquarters' security function to determine the level of compliance with the Government Security Policy. It concluded that the Ottawa office is in compliance with the policy and identified some opportunities to reinforce the importance of the security program and add to the credibility and integrity of the Office and its work. Phase two of the security audit will be carried out in 2003–04 to assess compliance in the five regional offices. Our internal audit reports are also available on our web site at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).



# *SECTION 3 — Performance*

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## **Strategic Outcome**

**We contribute to better managed government programs and better accountability to Parliament.**

The Office uses a results chain to describe our end outcomes (long-term results) and to show how we expect to make a difference for Canadians (Exhibit 4). The results chain links our outputs of audits, studies, opinions, information, and advice to our end outcomes of better managed government programs and improved accountability to Parliament. The chain also describes the various stakeholders and their contributions to improving government operations. We review the results chain regularly seeking to improve its usefulness and clarity.

In the following sections, we present results for a number of the end outcomes outlined in the results chain. These results are broken down into what the Office does for Parliament and the organizations we audit. These results are in part extracted from surveys that we conduct. This year some of the performance information that we are presenting is based on the 2001–02 survey data because our survey efforts are in transition. For more information on our 2001–02 survey of members of Parliament, see methodological endnote 1 on page 72.

In addition to performance measurement data that is periodically collected from legislators and Office employees, the Office also has been developing and piloting procedures for performance measurement from audit entities regarding a range of Office products; including value-for-money audits, annual audits of financial statements of Crown corporations, the audit of the Public Accounts, and special examinations.

## **Performance reporting and strategic challenges**

Our strategic plan sets out the overall plans and priorities for the Office to manage our key internal business risks. We have expressed our internal business risks as strategic challenges that we must achieve in one to two years. Our five strategic challenges are

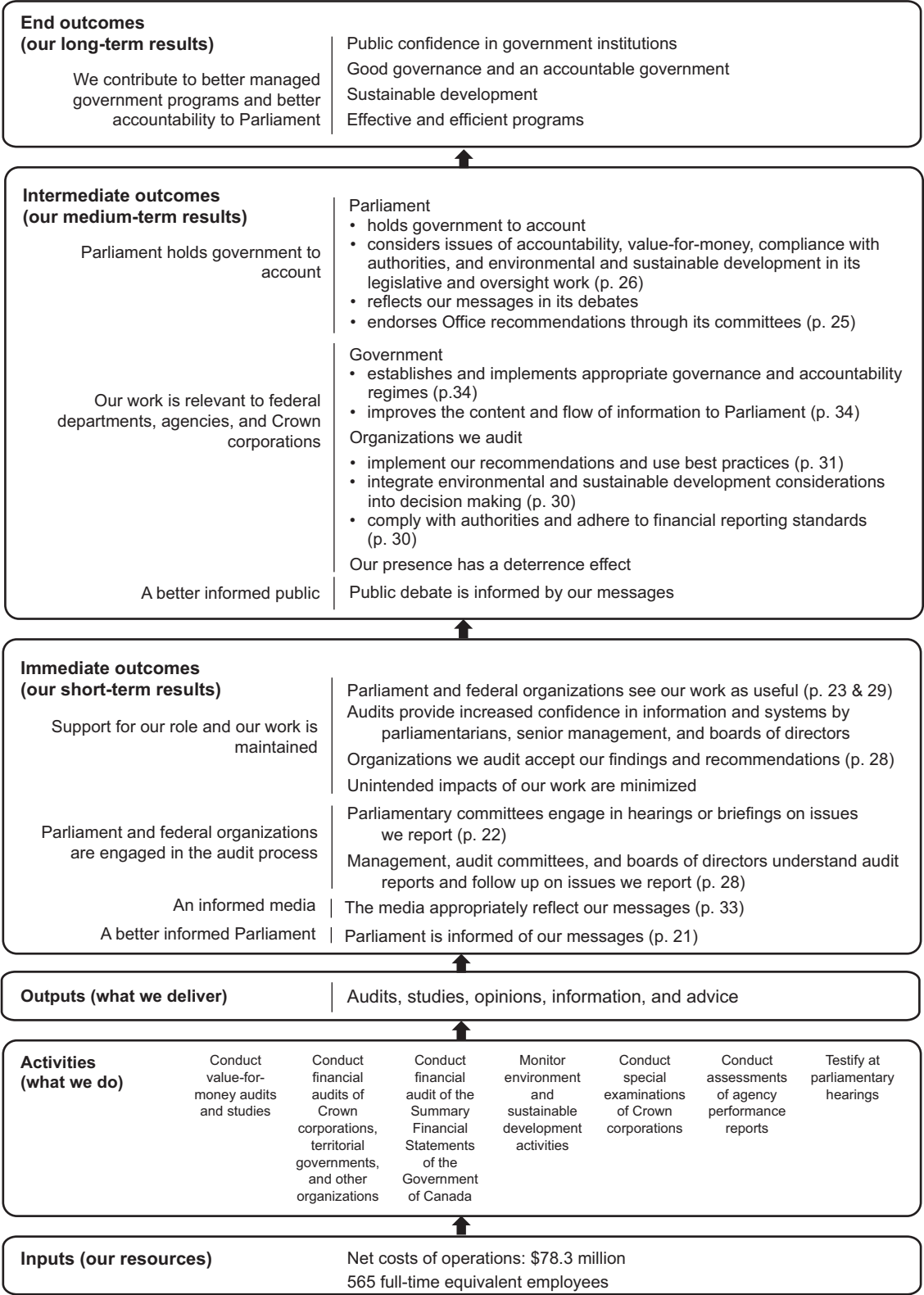
1. report more effectively,
2. advance our five focus areas,
3. reinvest in our audit practices,
4. provide a better place to work, and
5. operate more effectively.

These challenges encompass how we plan, conduct, and report our work, including the methodology and tools that we employ. They also cover many important aspects affecting





## Exhibit 4 Results chain





our people and our workplace. Successfully meeting these challenges will better align our practices and behaviours with our vision and values. It will provide the foundation we need to move forward.

## 1. Report more effectively

### What do we do for Parliament?

We assist and support Parliament with its work of authorizing and overseeing government spending and operations. We pursue work in the areas of financial and performance reporting, accountability, and compliance with governing authorities.

We strive to maintain good working relationships with parliamentarians. We try to ensure that parliamentarians are aware of the issues raised in our audits and that our reports are useful to them. This involves reaching out to standing committees and parliamentarians with a known interest for issues raised in our audits. We advise committees of reports that deal with matters relevant to the committee's mandate. We attend a high number of hearings before a wide range of committees to better inform parliamentarians of the results of our audits.

As is shown in the results chain, the nature and quality of our work contributes, in the short-term (immediate), to the following outcomes

- parliamentary committees engage in hearings or briefings on issues we report,
- parliamentarians have an increased confidence in information and systems,
- parliamentarians see our work as useful, and
- Parliament is informed of our messages.

And, in the medium-term (intermediate), Parliament,

- holds government to account,
- considers issues of accountability, value-for-money, compliance with authorities, and environmental and sustainable development in its legislative and oversight work,
- is informed by our messages in its debates, and
- endorses Office recommendations through its committees.

### How well did we perform for Parliament?

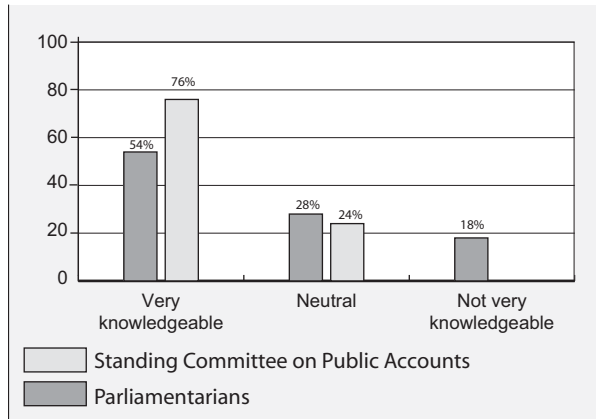
#### Informing Parliament

**Immediate outcome:** Parliament is informed of our messages.

**Result:** Seventy-six percent of the Standing Committee on Public Accounts and 54 percent of parliamentarians indicated that they were knowledgeable about the actual findings and recommendations of the Office (Exhibit 5).



**Exhibit 5 – Knowledge of our findings and recommendations**



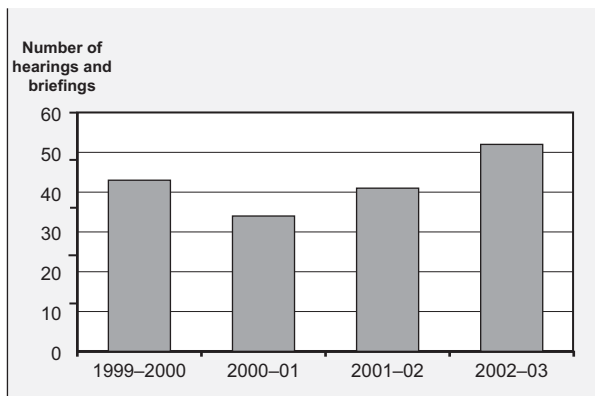
**Engaging Parliament**

**Immediate outcome:** Parliamentary committees engage in hearings or briefings on issues we report.

**Result:** We participated in 52 parliamentary committee hearings and briefings. Parliamentary committees reviewed 41 percent of our 2002–03 value-for-money audits.

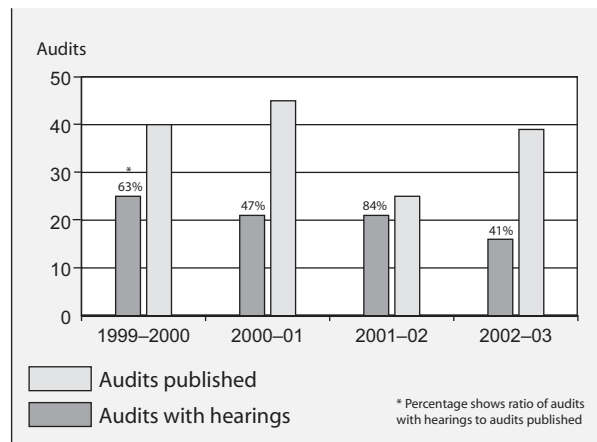
Parliamentary hearings indicated that parliamentarians wanted to learn about and possibly resolve the issues we reported. The Office participated in a record 52 hearings and briefings in 2002–03, which is up from 41 in 2001–02 (Exhibit 6). Most of those hearings and briefings were held with the Standing Committee on Public Accounts, while 19 of them were with other House of Commons standing committees or Senate committees that have an interest in issues we reported. Hearings were generally focussed on the review of value-for-money audits, but we also appeared to discuss pending legislation, as well as our *Report on Plans and Priorities* and our *Performance Report*. In addition, we were called to discuss the Public Accounts of Canada.

**Exhibit 6 – The Office participates in many hearings and briefings**



While our performance of 41 percent is lower, it reflects, in part, the effect of multiple hearings on a single audit (Exhibit 7). For example, the Standing Committee on Public Accounts held five hearings on the report to the Minister of Public Works and Government Services on three contracts awarded to Groupaction. There was also more than one hearing on the Canadian Firearms Program and the integrity of social insurance numbers. For more information on these indicators, see methodological endnote 2 on page 72.

**Exhibit 7 – Value-for-money audits reviewed by parliamentary committees**



## Usefulness to Parliament

**Immediate outcome:** Parliament sees our work as useful.

**Results:** Fifty-five percent of parliamentarians consider that the recommendations and findings of the Office had a positive impact on their specific committee work.

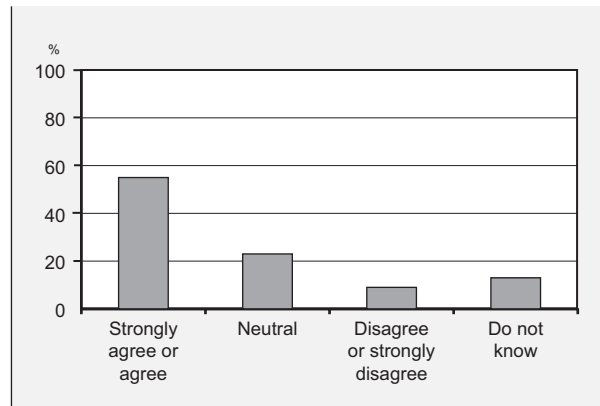
All of the members of the Standing Committee on Public Accounts indicated that the Office added value to their decisions as Committee members.

Three quarters of the members of the Standing Committee on Environment and Sustainable Development indicated that the information provided by the Commissioner added value to their decisions as Committee members.

About half of the parliamentarians in our survey agreed that the recommendations and findings of the Office had a positive impact on their overall committee work (Exhibit 8). However, when the members of the Standing Committee on Public Accounts, whose role is to focus on our reports, were asked the same question, 69 percent indicated that they agreed. The survey also indicated that 67 percent of Parliamentarians and 81 percent of the members of the Standing Committee thought that the Office presentations usually had a positive impact on their Committee work. Finally, it is also interesting to note that 94 percent of the members of the Standing Committee on Public Accounts and 74 percent of parliamentarians agreed that the Auditor General’s appearance at committee meetings is helpful to committee members.



**Exhibit 8 – Most parliamentarians agree that the Office had a positive impact on their committee work**



Senators, Members of Parliament, and particularly members of the Standing Committee on Public Accounts, have told us they want a more thorough follow-up of departments' progress in implementing our recommendations on key issues. From routinely reporting on all previous recommendations two years after the original audit, we have moved to a focus on the issues that are most significant—those that are systemic, timely, still relevant, carry higher risk, and in our view are of continuing interest to parliamentarians. Our *Status Report* tabled in fall 2002 marked the first step toward using this approach. Our Second Status Report was tabled in May 2003.

The work of our Office has a direct impact on the issues addressed by the Standing Committee on Public Accounts. The results of our survey of parliamentarians demonstrated a very high level of endorsement of our work. The members of the Standing Committee on Environment and Sustainable Development also agreed that the Office added value to their decisions.

There were other positive results raised in our survey. Two out of three parliamentarians indicated that they used our reports as source material for speeches, press releases, and letters to ministers and constituents. They also used them as background for House of Commons debates, Question Period, and to assist in answering questions from constituents.

The members of the Standing Committee on Environment and Sustainable Development also conveyed that the work of the Commissioner of the Environment and Sustainable Development was relevant to them.

*Invasive Species*, Commissioner's 2002 Report, Chapter 4 is an example of how the Office had through the Commissioner of the Environment and Sustainable Development a positive impact on parliamentarians' committee work.

In her 2002 Report, the Commissioner of the Environment and Sustainable Development criticized federal efforts to combat invasive species that threaten Canadian ecosystems,



such as the zebra mussel and purple loosestrife. At the suggestion of the Commissioner and the International Joint Commission which had issued a similar report, the Standing Committee on Fisheries and Oceans held a series of hearings on aquatic invasive species. The Commissioner worked closely with committee members and staff to brief them on the issues. The Commissioner's testimony before the Committee was quoted repeatedly by members in later hearings and in statements in the House of Commons. Following the hearings, the Committee issued its report, *Aquatic Invasive Species: Uninvited Guests* containing a series of recommendations supportive of those in the Commissioner's Report.

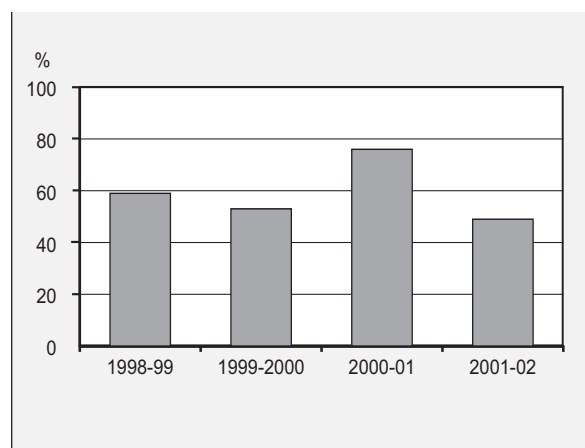
## Endorsement of our recommendations by Parliament

**Intermediate outcome:** Parliament endorses Office recommendations through its committees.

**Result:** In its reports to the House, the Standing Committee on Public Accounts explicitly endorsed 49 percent of our value-for-money audit recommendations that it reviewed in 2001–02.

The endorsement of our recommendations by the Standing Committee on Public Accounts is another indicator of the quality of our work (Exhibit 9). To determine the level of endorsement of our value-for-money audits, we calculate the percentage of audit recommendations reviewed by the Standing Committee on Public Accounts and endorsed in its reports to the House of Commons. In 2001–02, our performance was 49 percent. As the Committee has not yet issued all of its reports for hearings held in 2002–03, results are partial and have not been included in Exhibit 9. For more information on these indicators, see methodological endnote 3 on page 72.

*Exhibit 9 – Recommendations endorsed by the Standing Committee on Public Accounts*



The Committee also asks departments to submit action plans and progress reports on implementing recommendations contained in our value-for-money audits. We believe that this also represents a strong indication of endorsement.

### **Impact on legislative and oversight work**

**Intermediate outcome:** Parliament considers issues of accountability, value-for-money, compliance with authorities, and environmental and sustainable development consequences in its legislative and oversight work.

**Results:** We provide reports and advice that contribute to legislation and oversight work of Parliament.

The following examples show how our work contributes to the legislation and oversight work of Parliament.

#### **The Integrity of the Social Insurance Number, 2002 Status Report of the Auditor General, Chapter 1**

We carried out a follow-up audit on the management of social insurance numbers (SINs) to determine whether the government was safeguarding and strengthening the integrity of the program. We followed up on concerns we raised in our 1998 report and found that while there had been some progress since 1998, many issues had not been addressed. For instance, we again found serious weaknesses in the control and issuing of SINs. Our Office appeared three times before standing committees to discuss these findings. In their respective reports, these committees made recommendations to Human Resources Development Canada to address several unresolved weaknesses that were identified in the audit.

#### **Placing the Public's Money Beyond Parliament's Reach, April 2002 Report of the Auditor General, Chapter 1**

We have raised concerns about accountability and governance of foundations on different occasions including our observations on the 2001–02 financial statements of the Government of Canada. In our view, the organizational design of these foundations places the billions of dollars transferred to them beyond the reach of Parliament's scrutiny. The Senate Committee on National Finance held a hearing on the financing of foundations leading to an informed debate about their governance and accountability. In a second hearing with the Standing Committee on Public Accounts, we sought corrective action to deal with existing foundations and to ensure that new foundations are established differently. That Committee's report endorsed the Office's view.

#### **The Criminal Justice System: Significant Challenges, April 2002 Report, Chapter 4**

The House of Commons gave the Special Committee on Non-Medical Use of Drugs a mandate to study the factors of non-medical use of drugs in Canada and the problems involved in such use. In this context, we appeared before the Committee to discuss our audit. We highlighted that the economic cost of illicit drugs is estimated at \$5 billion



annually, including health care, lost productivity, property crime, and enforcement. Weaknesses in leadership and co-ordination, information, and comprehensive public reporting will need to be addressed if Canada wants to reduce the impact of illicit drugs. In its final report, *Policy for the New Millennium: Working Together to Redefine Canada's Drug Strategy*, the Committee made recommendations to address weaknesses identified in the audit. The report referred to our audit's statistics and reproduced one of our exhibits.

### **Review of the Estimates process**

The Standing Committee on Government Operations and Estimates was created in May 2002 in response to concerns from members of Parliament that the House of Commons should strengthen its oversight of departments and its annual review of Estimates. A few months after its creation, the Committee began looking at the Estimates process. In the fall of 2002, we were asked to appear to comment on the overall accountability process, which the Estimates support.

Our December Auditor General Report on the Canadian Firearms Program (Chapter 10) raised major concerns about the information provided to Parliament on its costs. The Standing Committee on Public Accounts held four hearings to discuss this situation. During those hearings, it was pointed out that members of Parliament had approved the funding for this program in the annual Estimates process and that they have a role to review Estimates and challenge the department on its numbers.

To provide suggestions to committees for their review of Estimates, the Office released *Parliamentary Committee Review of the Estimates Documents* in March 2003. We were invited to appear at four hearings before the Government Operations and Estimates Committee and one of its sub-committees. We also appeared before the Agriculture Committee to discuss the various approaches available to committees for reviewing Estimates documents.

### **Hearings on pending legislation**

We will occasionally assist committees and discuss the work of our Office that may be relevant to the review of proposed legislation. For example, the legislative committee on Bill C-17 (the Public Safety Act), was interested in what we presented regarding the management of IT security systems and co-ordination. They referred to our testimony in subsequent hearings. As well, we appeared before the Standing Committee on Aboriginal Affairs to assist the committee in its consideration of The First Nations Governance Act by providing information based on our recent audits and studies. The Standing Committee on Government Operations and Estimates sought the Auditor General's views on the Public Service Modernization Act, given the Office's position that changes were needed to update a legislative framework that is over 35 years old.

## **How well did we audit federal organizations?**

As our results chain illustrates, we are aware of the importance of delivering audit reports that contain high quality information and that add value. To determine how well we perform, we must measure whether, in the short term



- management, audit committees, and boards of directors understand audit reports and follow up on issues we report,
- federal organizations see our work as useful, and
- organizations we audit accept our findings and recommendations.

In the medium-term, we must also encourage organizations we audit

- to implement our recommendations and use best practices,
- to integrate environmental and sustainable development considerations into decision making, and
- to comply with authorities and adhere to financial reporting standards.

### Engaging organizations we audit

**Immediate outcome:** Management, audit committees, and boards of directors understand audit reports and follow up on issues we report.

**Result:** Eighty-five percent of the chief financial officers and chairs of audit committees of Crown corporations that we surveyed in 2001\* indicated that information we provided assisted management and the audit committee in carrying out governance responsibilities.

\*Also included are federal agencies requiring an annual financial audit (Canadian Food Inspection Agency, Canada Customs and Revenue Agency, and Parks Canada) and international organizations we audited (International Civil Aviation Organization and UNESCO).

In our 2001 survey of senior management of Crown corporations where we conducted financial audits, we examined the level of stakeholder interest by asking management if they agreed that the audit information assisted them with their governance responsibilities. This includes reports, presentations, developments in the profession, and good practices. Eight-five percent of the chief financial officers and chairs of audit committees surveyed agreed that the information provided was useful (59 percent agreed and 26 percent agreed strongly). The balance of respondents were either neutral (14 percent) or disagreed (1 percent). A previous survey done in 1999 had similar results. For more information on the 2001 survey methodology, see methodological endnote 4 on page 72-3.

### Level of acceptance of our recommendations

**Immediate outcome:** Organizations we audit accept our findings and recommendations.

**Result:** Sixty-four percent of chief financial officers of Crown corporations that we surveyed in 2001 intended to implement within the year the majority of improvements we identified.





An indication of this support is shown in the departmental responses to our value-for-money audits and special examinations—the vast majority agreed with our recommendations. For financial audits, our 2001 survey indicated that two thirds of the chief financial officers intended to implement the majority of improvements we identified.

### Usefulness to organizations we audit

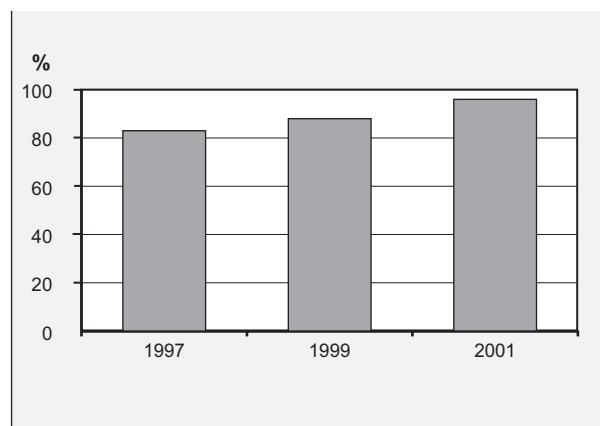
**Immediate outcome:** Federal organizations see our work as useful.

**Results:** Ninety-six percent of chief financial officers and chairs of audit committees of Crown corporations that we surveyed in 2001 expressed satisfaction with our audit findings and conclusions.

Over 80 percent of the chairs of the board and chief executive officers that we surveyed in 2002 believe that our special examinations of Crown corporations were worthwhile and added value to their organizations.

In our 2001 survey of chief financial officers and chairs of audit committees of Crown corporations, 96 percent indicated that they were satisfied with our findings and conclusions (Exhibit 10). The Office also rated high in past years (83 percent in 1997 and 88 percent in 1999). There is a clear trend toward an increasing level of satisfaction.

*Exhibit 10 – Crown corporations are satisfied with our findings and conclusions*



The Crown corporations we surveyed were also the subject of a special examination by our Office over the last five years. Over 80 percent of chief executive officers and chairs of boards of directors agree or strongly agree that our audits and information added value for their organization. For more information on our survey of chairs of the board and chief executive officers of Crown corporations, see methodological endnote 5 on page 73.



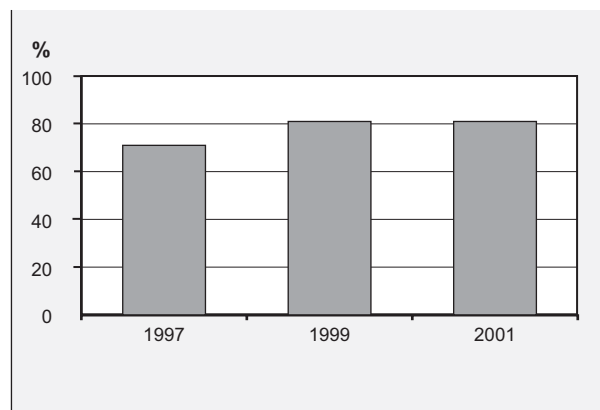
## Adherence to financial reporting standards

**Intermediate outcome:** Organizations adhere to financial reporting standards.

**Result:** Eighty-one percent of chief financial officials and chairs of audit committees that we surveyed in 2001 indicated that annual financial audits assisted in improving their organization's financial reporting.

In 2001, a high level of chief financial officers and chairs of audit committees of Crown corporations agreed that our financial audits improved the quality of their financial reporting (Exhibit 11). Improvements were provided through the financial statements and the management discussion and analysis in the annual report.

*Exhibit 11 – Organizations agreed that our annual financial audits improved the quality of their financial reporting*



## Integrating environmental and sustainable development into decision making

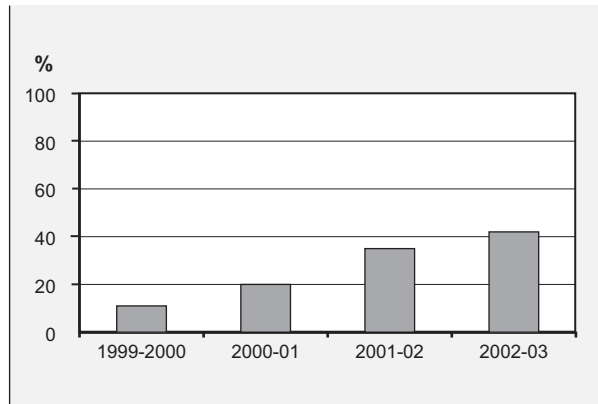
**Intermediate outcome:** Organizations we audit integrate environmental and sustainable development considerations into decision making.

**Result:** Departments and agencies reported having met 42 percent of commitments made in their sustainable development strategies (2002 Report of the Commissioner of the Environment and Sustainable Development, Chapter 5).

In Chapter 5 of the 2002 Report of the Commissioner, we stated that departments reported having met 42 percent of the commitments made in their first sustainable development strategy (Exhibit 12). While this represents some improvement, the quality of reporting in the performance reports leads us to question the reliability of that figure.



*Exhibit 12 – Sustainable development strategy commitments that departments reported as being met*



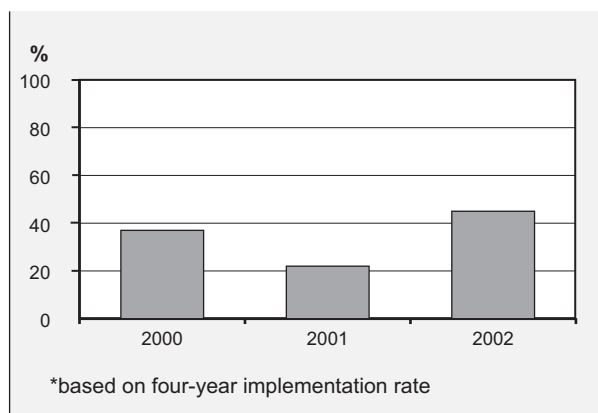
### How well our recommendations are implemented

**Intermediate outcome:** Organizations we audit implement our recommendations and use best practices.

**Results:** Departments and agencies fully implemented 45 percent of our recommendations.

We measure our impact in improving the government's accountability, operations, and services by determining the percentage of recommendations we made four years ago that have been implemented (Exhibit 13). By the end of 2002, 45 percent of our 1998 recommendations had been implemented. This result shows an improvement over previous years. Government departments and agencies are ultimately responsible for taking corrective action and improving management practices. We encourage them to improve their operations by implementing our recommendations, and we monitor their performance in doing so.

*Exhibit 13 – Implementation of our recommendations\**



In 2002, we modified this performance indicator to focus more directly on departments' success in fully implementing our recommendations after a reasonable time. In the coming years, we will establish a baseline that will enable us to set a target. For more information on this indicator, see methodological endnote 6 on page 73.

Groupaction, Special Audit Report, May 2002 is an example of how quickly our recommendations were implemented after tabling a special report.

In March 2002, following a request from the Minister of Public Works and Government Services (PWGSC), the Auditor General agreed to audit the government's handling of three contracts worth a total of \$1.6 million awarded to a communication agency, Groupaction Marketing Inc. The audit report, tabled in the House of Commons on 9 May 2002, revealed extensive non-compliance with government legislation, regulations, and policies that apply to financial transactions. Because of the lack of documentation in the files, the Auditor General concluded that she could not provide any assurance that the Government of Canada had obtained value for money from any of the contracts audited. In light of the seriousness of the findings, she referred the matter to the RCMP and began a government-wide audit in three areas—sponsorship, advertising and public opinion research—to be tabled at the end of 2003.

In response to the Auditor General's report, PWGSC undertook a review of more than 100 high-dollar-value sponsorship files that confirmed the Auditor General's findings and led to the referral of several more cases to the RCMP for investigation. In the weeks following the release of the Auditor General's report, the Secretary of the Treasury Board asked each department and agency to assess the controls and contracting procedures in place to manage contracts in the three areas. He also had them review all current contracts to ensure that they complied with the *Financial Administration Act* and government policies and regulations. The government has since introduced a complete overhaul of the sponsorship program. It eliminated the use of intermediaries and moved the delivery of the program through contributions rather than contracts. It made major changes to advertising practices aimed at increasing competition, transparency, accountability, and value for money. New measures included the use of new procurement tools for the selection of advertising agencies, a new mode of remuneration of these agencies, and various measures to increase expertise of government officials on contracting and advertising issues. The government also announced plans to improve the contracting process for public opinion research activities.

### **Communicating our message to the media and the public**

Our analysis of media coverage indicates that our messages were well understood and, with few exceptions, were reported accurately. We were also pleased to note that the media uses our audit findings and considers them a credible and reliable source of information. This contributes to a better informed citizenry and enriches the public discourse about effective and accountable government.

Media coverage also tends to stimulate interest in our work on the part of Canadians and generates both inquiries and messages of support. In 2002-03, the Office received 1,432



inquiries from the public. We continue to receive congratulatory messages and phone calls about the good work that the Auditor General and the Office are doing.

Many inquiries concern problems that individuals are experiencing with federal departments and agencies. The fact that they contact the Office with their concerns, even when we cannot provide any assistance, demonstrates the extent of the visibility of the Auditor General and the public's confidence in her.

## **2. Advance the Auditor General's five focus areas**

In 2002, the Auditor General identified five areas that she wishes to focus on during her term (Exhibit 14). These focus areas also form an integral part of our strategic plan. They will assist us in both planning and reporting on the results of our audit work.

Our five focus areas include accountability to Parliament, an effective public service, the well-being of Canadians—including their health, safety, security, and environment—Aboriginal issues, and the legacy and heritage we will leave our children. The first two have traditionally interested auditors general. The last three focus on people and are important to Canadians. In the future, the Office will report against these focus areas so that Parliament and Canadians are aware of our audit results related to each of them.

### *Exhibit 14 – The Auditor General's five focus areas*

#### **1. Accountability to Parliament**

To help Parliament hold the government of the day to account for its use of public funds and assets and its adherence to governing authorities by providing assurance, and objective and independent information.

#### **2. Effective public service**

To assess whether the key resources of government—people, technology, information and financial resources—work together effectively to achieve results for Canadians and make the best use of public funds.

#### **3. Well-being of Canadians**

To enhance the well-being of Canadians by focussing our work on government programs that affect their quality of life today. To enhance the well-being of Canadians by focussing our work on promoting security for all citizens.

#### **4. Aboriginal issues**

To contribute to the well-being of Aboriginal people by focussing our work on the social, economic, and environmental conditions that they face.

#### **5. Legacy and heritage**

To assess whether the financial, human, social, cultural, and natural capital that we have inherited, and that defines us as Canadians, is protected and preserved for future generations.

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In 2002–03, we reported the results of audits touching on all five focus areas. For example, in the area of accountability to Parliament, we looked at modernizing accountability in the public sector and at the impact of placing the public's money beyond Parliament's reach. Effective public service was another important focus of our work and included audits of information technology security, modern comptrollership, and the acquisition of office space. The well-being of Canadians was addressed through audits of



a number of topical issues such as federal support for health care delivery, invasive species, and the integrity of social insurance numbers. We conducted an audit of First Nations reporting to federal organizations. We examined legacy and heritage matters through audits of federal contaminated sites and abandoned mines in the North.

This year, we are reporting on actions taken by departments and Parliament to improve accountability to Parliament, the first of our focus areas.

**Intermediate outcomes:** Government improves the content and flow of information to Parliament.

Government establishes and implements appropriate governance and accountability regimes.

**Results we are working toward.** Our work in this focus area provides assurance, and objective and independent information to help Parliament hold the government to account. Two of the key results areas that we are working toward are enhanced parliamentary scrutiny of government spending and effective governing frameworks for public policy delivery:

- For effective scrutiny, Parliament needs good information on departmental plans and performance, and in-depth committee review of spending estimates.
- As the government increasingly uses new arrangements to deliver programs and services, in place of traditional departments, there is a need for adequate governing frameworks that ensure the accountability of these arrangements to Parliament.

**What have we done?** Our audit work provided objective financial and non-financial information to Parliament on departmental performance. In addition, we provided testimony, advice, and other support for committee review of spending estimates.

In April 2003 we tabled a revised paper, *Parliamentary Committee Review of the Estimates Documents* (first issued in 1998), with the Subcommittee on the Estimates Process of the new Standing Committee on Government Operations and Estimates. Our intent is to assist standing committees to review the Estimates documents and make a number of suggestions committees might find useful.

We brought to Parliament's attention accountability issues associated with transfers to foundations in our Observations on the Government's Financial Statements in the Public Accounts 2001–02, and our April 2002 Report Chapter 1, Placing the Public's Money Beyond Parliament's Reach. We found weaknesses in the governing framework for foundations, that is, the elements essential for good governance, and accountability to Parliament, including credible reporting of results, effective ministerial oversight, and adequate external audit.

**What has changed?** Recently, members of Parliament have demonstrated greater interest in the review of Estimates in committee. We responded by providing more support to



committees, through our testimony at five hearings and our paper on the review of the Estimates documents. In addition to the Standing Committee on Government Operations and Estimates, a number of other standing committees have looked into departmental spending and reported to the House of Commons on the Estimates.

In the 2003 Budget, the government committed to making a number of improvements in the governing framework for foundations. Soon after, the Standing Committee on Public Accounts recommended that the government make further improvements.

### **3. Reinvest in our audit practices**

If Parliament and Canadians do not respect and trust the quality of our work, then we cannot maintain our credibility and impact. Any decrease in the credibility of our work or in the respect in which the Office is held also affects our ability to recruit and retain employees, secure necessary funding and most importantly provide parliamentarians with valued information and advice.

We are continuously improving the quality of our work. We are implementing new audit methodology, technology, tools, and training to respond to the changing needs of the audit profession.

**Advancing our audit practice project.** Our objectives are to introduce a risk-based methodology to determine audit priorities, to enhance the quality of our annual audit practices, and to increase emphasis on compliance with governing authorities in our audits.

We developed an integrated risk-based long-term audit planning approach for all components of legislative auditing—value-for-money audits, financial audits, audits of the environment and sustainable development strategies, compliance with authorities, special examinations, and assessments of performance reports. In 2002–03, we completed risk-profiles for seven entities and functional areas.

For our financial audits, we adapted and revised our Annual Audit Manual using a controls-reliant audit approach, and trained 250 auditors to use the methodology and electronic working papers. Our efforts in the use of electronic working papers were recognized by PricewaterhouseCoopers when the Office received an award at the 2003 TeamMate Users Conference for best internal support infrastructure.

The implementation of the government's Financial Information Strategy (FIS) and Modern Comptrollership agenda has resulted in changes to the systems and controls in government departments and agencies. The audit effort required to assess these controls and to implement FIS and Modern Comptrollership are affecting how we audit departments and agencies. As a result, we have developed a multi-year plan to assess controls in 18 departmental FIS systems as well as approximately 75 major legacy systems that feed these systems. In doing these assessments, we provide management with recommendations for improvements to their systems and controls.



The new approach allows teams to gain better knowledge of the audit entity and its business, gives more flexibility in work management, and makes it easier to share audit information among auditors. In the next audit cycle, we need to continue to provide guidance in the use of the methodology and the electronic tools and to promote the change to controls-reliant audits.

## **4. Provide a better place to work**

### **The Office employs professionals**

As an organization that examines and analyzes a vast array of governmental activities in its various audits for Parliament, the Office needs employees with up-to-date training and expertise in many fields. We employ experienced people with post graduate degrees from a wide range of professional backgrounds and disciplines—accounting, statistics, economics, engineering, law, social and environmental sciences, public administration, human resources, and information technology. They represent 70 percent of our employees located in offices in Ottawa, Vancouver, Winnipeg, Edmonton, Montréal, and Halifax. In addition, our audit professionals are supported by a strong team. Our audit services group consists of professionals specialized in information technology, human resources, knowledge management, communications, finance, and administration. One of the highest risk factors for the Office is not having enough employees with the required competencies to carry out our mandate.

In 2003, there was an increased focus on our staffing processes, performance management process, contract negotiations, professional development, and language profile. In addition, we analyzed and acted on the results of our employee survey.

### **Toward a renewal of our workforce**

The Office views its people as very important to its continued vitality and success. The renewal of our human resources is a challenge for the coming years. We must recruit, train, and retain diverse employees.

**Recruitment and retention.** To renew our workforce, we must continue to recruit students and prepare them to succeed as audit professionals. As of 31 March 2003, we had 34 students that were studying to become accountants with the designation of Chartered Accountant, Certified General Accountant, or Certified Management Accountant. We also had 12 new employees with graduate degrees seeking experience in value-for-money auditing.

These numbers mark an increase in student recruitment since 31 March 1997, at which time we had a total of 17. They show our commitment to infusing new talent in our organization and are the result of a recruitment strategy, which includes the use of advertising campaigns and recruitment agencies. We have implemented an on-line application system and are building closer ties with universities to increase our recruitment of trainees and recent graduates.





Although recruiting is a key element of our strategy to maintain and increase the vitality of our workforce, it is equally important to ensure that we retain our employees. This is an ongoing concern for us. In 2002–03, 68 employees (11.4 percent of our staff) left the Office; in 2001–02, the number was 54 (8.7 percent). Our audit services group saw increased turnover because of departures and retirements. In the audit professionals group, which experienced a decrease in turnover, employees left because of career development, personal reasons, or compensation. To address retention, we revised salaries for audit professionals, our orientation program, and our rewards and recognition program.

**Retirements.** We continue to be concerned that a significant number of our senior executives will retire in the next several years. Five of our ten assistant auditors general will retire between 2003 and 2006. As a result, we are adding positions at the senior executive level and providing an overlap between new executives and retiring ones. The assistant auditors general have also agreed to a 12-month notice period to allow for a proper transition period for their replacements.

As we expect approximately 30 percent of our directors and principals to retire between 2003 and 2010, we have a plan in place to prepare our employees to take on greater responsibilities and fill critical positions. We feel we have the talent and employees to meet this demand.

### **Fostering the merit principle**

The Office strongly supports and integrates in all of its human resources activities the staffing values and principles of the Public Service Commission.

The Commission's values of competency, representativeness, non-partisanship, fairness, equity, transparency, flexibility, and affordability-efficiency are all present in our independent staffing processes. Since 2001, the human resources function at the Office reports directly to the Auditor General.

**Open competitions.** In 2002–03, 44.5 percent of appointments were made through open competitions—competitions open to the public (not only the public service). This is a significant number. Our open competitions allow us to renew our workforce with the most competent available resources through an equitable transparent process.

**Term appointments.** The Office limits the number of term appointments to very specific staffing needs. At the end of 2002–03, we had 49 term employees, of which 35 were students. Our student programs are term programs. Students are hired with limited time to obtain their professional designation. As soon as they do so, they usually become indeterminate employees. If they do not obtain their designation, their employment is terminated. Of the remaining 14 term employees, none had been with the Office for more than two years. Term employees, other than students, are generally only hired to replace indeterminate employees who are on leave.

**Competency.** The Office has a competency model that other agencies have used to develop their own. It details for each position level critical and expected competencies and



forms the basis of our staffing and promotion interviews. In 2003, we redesigned our performance management form to tie it directly to the competency model and our strategic values and behaviours.

**Equity.** Employment equity is an underlying value of our Office. We are committed to ensuring equal opportunity in the workplace for all employees. In 2002, we continued to have a representation of women that exceeded the average availability in the workforce. We also increased the representation of women at the executive level. However, although we have made some progress in hiring persons from a visible minority, we are still below our target in employing persons with disabilities and Aboriginal people.

In 2003, the Canadian Human Rights Commission began its routine audit of our employment equity plan and progress, to be completed by December 2003. In the meantime, it recommended a review of our employment systems. We have hired a consultant for that purpose, whose report we expect in the fall of 2003. We have delayed our three-year employment equity plan until the Commission finalizes the results of the audit.

### **Survey of employees**

While the Office has many tools to obtain formal and informal feedback from its employees, it decided to conduct an employee survey to identify critical areas requiring improvements. For more information on our survey, see methodological endnote 7 on page 73.

Among the key findings, 88 percent of our employees agreed that the Office is a good place to work. More specifically, 78 percent indicated that they support the new vision and values of the Office. Seventy percent affirmed that they understood where the Office is going over the next two years. Overall, employees' relationships with their supervisors were seen as positive. Seventy-five percent concurred that their supervisor asked for and respected their input. Even more felt that their decisions were supported by their supervisor. Seventy-seven percent of employees agreed that they were able to balance work and personal responsibilities.

Employees have concerns about certain aspects of their work. Employees need more time and resources to do their jobs. Since the survey results, the human resources group is now monitoring overtime and vacation to identify those who work excessively and do not take regular vacations. We also have introduced an electronic staff scheduler to help assign employees and balance workloads. During 2002–03, we actively recruited and added approximately 30 indeterminate staff to our Office. This represents an increase of about 5 percent.

Employees felt that there should be better recognition and rewards for good work. We have started the Bravo Program to recognize employees in various ways and in a timely fashion. The range of awards recognizes the diversity of tastes and ensures that employees are rewarded in a way that is meaningful to them. The program provides for both formal and informal recognition of individual and collaborative efforts.



## **Performance management**

In 2002–03 we redesigned the annual performance assessment form and integrated the competencies in our competency model. The evaluator now rates the employee in three areas: meeting objectives, people management skills, and product management skills. In the last two areas we included the values and related behaviours identified in the Auditor General’s strategic plan in addition to the related competencies of our competency model.

As in 2001–02, we continued to promote a more rigorous evaluation of staff with the majority of managers not receiving exceptional performance pay.

Two years ago, performance ratings showed 75 percent of management rated at 120 percent as compared to 25 percent in 2002–03. We focussed on providing fairer and more transparent feedback and distributing management performance pay accordingly.

## **Professional development**

We have a curriculum for the professional development of our management, professional, and audit services employees. Our employee survey showed that 83 percent of our employees were committed to their learning and development plan.

In 2002–03, we created a learning committee to develop a learning vision for the Office. We spend a significant amount on professional development—almost 5 percent of our annual salary budget. The learning committee was set up to ensure that this expenditure is effective and that it contributes to the Office as a learning organization.

We offer courses in financial and value-for-money audits, communications, human resources management, and orientation. Participants evaluate all courses which are generally well rated. Employees at all levels received an average of 7.3 days of professional development and training—a significant increase from 6.4 days in 2001–02 largely because of the implementation of new audit tools. Managers received 7.5 days (7.6 in 2001–02), audit professionals received 9.9 days (6.7 in 2001–02), and audit services employees received 3.0 days (4.7 in 2001–02), a decrease attributed to the audit services employee conference held every two years.

We will review our training curricula in 2003–04 to ensure that it optimize the use of many audit innovations and new programs.

## **Collective agreements**

The Office negotiates with two bargaining units. In the summer of 2002, we successfully negotiated both contracts, which expired on 31 March 2003. We were unable to obtain a mandate from Treasury Board for more than one year. We will now re-enter negotiations and hope to obtain a three-year mandate from the Treasury Board.

There were few additions to benefits. Our benefits are similar to those of the public service, with the exception of a clause allowing us to grant performance pay to exceptional performers in our audit professional contract. Unfortunately, we were unable to add this



clause to our administrative services group contract. We will continue to pursue this addition during the next round of negotiations.

Salary increments increased significantly for our audit professionals. Previously, it required almost 11 years for employees to reach the top of the salary ranges. The new increments require 6 years. They provide a more competitive average salary and should curb the turnover of auditors, which decreased from 16.5 percent in 2001–02 to 15.2 percent in 2002–03.

### **Linguistic profile**

Before 2002, language requirements for management positions were often determined by the first language of the incumbent. In 2002, the Office announced that all management positions in our Ottawa and Montreal offices were designated as bilingual (CBC). By 31 March 2003, 42 percent of management employees had met the requirement.

We aim to have 100 percent of our assistant auditors general and principals, and 75 percent of our directors in bilingual regions meet the requirement by 31 March 2007. The Treasury Board had set its deadline of 31 March 2003 for all managers, which we were unable to meet.

To reach our goal we have

- implemented an official languages policy that requires training plans for all employees wishing to obtain Office-funded training;
- dedicated a language-training budget of approximately \$500,000 per year (\$250,000 more than prior years);
- ranked employees according to their need for language training and identified time for them to attend immersion classes;
- planned a Web site with best practices, which will be launched in September 2003; and
- implemented semi-annual monitoring of the level of bilingualism of managers.

## **5. Operate more effectively**

The challenge is to have policies and practices that are aligned with our vision and values and processes that are economical, efficient, and responsive. Our objective is to develop and implement better systems for operational planning and project management and, in particular, for the allocation and reallocation of resources. These more efficient business practices will result in better planned and managed audits, and will improve the effectiveness and impact of our work. In this section, we are providing information on three key management initiatives: modern comptrollership, knowledge management, and our sustainable development strategy.

### **Modern comptrollership**

As part of our ongoing commitment to the government's modern comptrollership initiative, we will conduct a comptrollership capacity assessment in 2003–04. This



assessment will help us identify areas where we can improve our comptrollership and management practices.

We plan to use the financial management capability model that we developed in 1999 as the basis for the assessment. Each of the three main elements of the model will be evaluated: risk management and control, information, and management of resources. We will engage consultants to facilitate the assessment and will report the results on our Web site and in our next *Performance Report*. In related work, we are developing an integrated risk management framework for implementation across the Office.

### Knowledge management

We continue to make progress in Office initiatives that enhance the capture and sharing of knowledge. Our intranet has become a business tool of preference that delivers methodology, research resources, supporting tools, and entity sites needed by our audit teams, all in one place. These resources are supported by communities that act as stewards for the knowledge bases and serve as a venue for knowledge sharing. We have acquired a new electronic toolset as part of the advancing audit practices project and are integrating it with the work of financial auditors and our electronic records tracking system.

### Our Sustainable Development Strategy

In our *Performance Report* 2002–03, we are reporting on our third strategy. A detailed performance report on our strategy is available at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca). In our third strategy, we will be taking a more strategic approach focussing mainly on areas where our Office has the greatest potential for impact and can make a significant difference (Exhibit 15).

*Exhibit 15 – Sustainable development performance measures*

Performance measures	2000–01 Actual	2001–02 Actual	2002–03 Target <sup>1</sup>	2002–03 Actual
<b>Our audit work</b>				
Percentage of value-for-money audits and special examinations that integrated environment and sustainable development issues <sup>1</sup>	27%	52% <sup>2</sup>	30%	30%
Percentage of audit planning documents that found environmental and sustainable development issues to be significant <sup>3</sup>	35%	35%	Established baseline <sup>4</sup>	24%
<b>Other work related to our mandate</b>				
Number of petitions coordinated by the Commissioner per year	5	28	No target <sup>5</sup>	29

1. Includes audits done by the Commissioner of the Environment and Sustainable Development

2. This percentage should be viewed cautiously as it depends to a large extent on the number of audits published. The total number of audits published fell from 44 to 22 during 2001-02 and increased to 30 in 2002-03 (value-for-money audits and special examinations).

3. This is the first year that we are able to report on this indicator.

4. Our original target was 20 percent by 2004. This was low as we had not established a baseline. We retroactively established a baseline of 32 percentage. We will update the target based on this new information.

5. No target—tracking only.



**Our audit work.** In 2002–03 we produced six value-for-money audits and three special examinations that integrated environment and sustainable development issues.

We amended our value-for-money audit methodology requiring audit teams to consider environmental or sustainable development issues and determine if those issues are significant to the subjects being examined.

For the first time, we are able to report on the number of audit planning documents that found environmental and sustainable development issues to be significant. We retroactively looked at planning documents for previous years and established a 32 percent baseline.

Five parliamentary hearings focussed on environmental issues including three audits by the Commissioner of the Environment and Sustainable Development.

**Other work related to our mandate.** The Commissioner of the Environment and Sustainable Development is responsible for handling environmental petitions on the behalf of the Auditor General. The environmental petitions process provides a formal means for Canadians to bring their concerns about environmental issues to the attention of federal ministers and departments and to obtain a response. The Commissioner co-ordinates the process, monitors responses, and makes sure that the questions Canadians raise are addressed by federal ministers and their departments. In 2002–03, the Commissioner received 29 petitions. Excluding the pending petitions, 93 percent of the departmental responses were made within the prescribed timeframe, an increase from last year's figure of 72 percent.

**Our methodology activities.** In early 2003, we began to develop an audit practice guide that will help auditors consider and audit environmental issues. This project could not be completed in 2002–03 as was anticipated in our 2002 *Performance Report*. We now expect it to be completed by December 2003.

**Space Renewal—Environmental considerations.** With Public Works and Government Services Canada, we have completed the retrofit of two of the four floors at our Ottawa office.

The following four principles provided the basis for the environmentally responsible management of the retrofit project: the implementation of the waste reduction program, the minimization of non-renewable energy consumption, the use of environmentally preferable products, and the enhancement of the indoor office environment.

A total of 55 percent (by volume) of all generated waste was diverted from landfill during the deconstruction phase by salvaging material for re-use or recycling. This represents a considerable effort, but does not meet the target of 80 percent that was set in the memorandum of understanding between contractors and sub-contractors. Given the number of contractors on site, it was harder to control the contents of waste bins. Waste bins containing material for recycling or re-use were sometimes mixed with other non-recyclable waste material.



# ***SECTION 4 — Financial Performance***

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## **Parliamentary appropriations used**

In 2002–03, the Office used \$71.7 million of the \$73.8 million in parliamentary appropriations approved. The \$73.8 million comprised \$68.6 in Main Estimates and a further \$5.2 million in Supplementary Estimates, adjustments, and transfers. Of the \$5.2 million, \$.7 million was for space renewal of our Ottawa and Montréal offices and international audits. The remaining \$4.5 million in Supplementary Estimates, adjustments, and transfers were more routine in nature, including carry-forward funding and salary adjustments.

The Office lapsed \$2.1 million of our approved parliamentary appropriations in 2002–03. Delays in the purchase of furniture for the renewal of our office space at the CD Howe building in Ottawa contributed to \$1.4 million of this lapse. The remaining \$.7 million is largely due to travel and professional service contract costs for audit work that we deferred to 2003–04.

Like other government departments and agencies, subject to parliamentary approval, the Office can carry forward up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year. For 2002–03, the Office has requested that it be allowed to carry forward \$3.0 million—\$2.1 million lapse in approved parliamentary appropriations and \$.9 million for employee benefits (e.g. maternity and severance benefits) funded through the Treasury Board Secretariat.

## **Full-time equivalent utilization**

The Office used 565 full-time equivalent (FTE) of employees in 2002–03, which represented 99 percent of our budget of 570 FTEs. This is an increase in FTEs of 46 from last year. In 2001–02, we used 519 FTEs, representing 89 percent of our budget of 580 FTEs.

As at 31 March 2003, the Office had 595 employees. The employment of students, part-time work, and employee turnover explain the difference between the number of employees and the number of FTEs used over the year.

## **Cost of operations**

In 2002–03, the net cost of operations for the Office was \$78.3 million, as reported in our audited financial statements on page 60. This is an increase of \$11.3 million from 2001–02.





In 2002–03, we received salary economic increases of about 2.5 percent or \$1.2 million. Also, the cost of services provided without charge for accommodation and certain employee benefits increased by \$2.3 million, which accounted for about 3.4 percent of our increased overall spending. The remaining increase of \$7.8 million is largely attributable to increased spending on salaries for new hiring, salary increases for employees subject to collective agreements and management performance pay as well as professional service contracts.

The largest increase in our total cost of operations was for financial audits of Crown corporations, territorial governments, and other organizations (\$5.4 million). The cost of value-for-money (VFM) audits was the second largest increase (\$2.2 million) followed by special examinations of Crown corporations (\$1.5 million increase), professional practice activities (\$1.3 million increase), and the audit of the financial statements of the Government of Canada (\$1.1 million increase).

Also of importance is the comparison of planned spending to actual costs. The preparation of our 2002–03 *Report on Plans and Priorities* was based on planned spending of \$78.6 million. After preparing the document, we received parliamentary approval for additional spending and updated our budget to reflect planned spending of \$82.1 million. The revised spending plan is included in our 2003–04 *Report on Plans and Priorities*.

A cost and budget variance analysis by Office activity is presented below. The actual costs are those reported in our audited financial statements. Table 10 shows the cost of audits completed during 2002-03 compared to budgeted costs. Table 11 shows the Office's audit effort by entity presented on a fiscal basis during 2002-03. These two tables are only published in our 2002–03 *Performance Report* on our web site at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

### Value-for-money audits

Budget	2002–03	\$37.9 million
Actual costs	2002–03	38.4 million
Actual costs	2001–02	36.2 million
Budget variance—increase		0.5 million (1 percent)
Cost variance—increase		2.2 million (6 percent)

The 2002–03 cost increase in our VFM audit practice is largely attributable to salary increases for economic adjustments and an increase in cost of services provided to us without charge. The variance between planned and actual spending is minor (one percent).

Most of our VFM audits take place over two years, requiring us to manage budgets that cross fiscal years. We establish budgets for each of our VFM audits and monitor actual costs as the audit progresses. In 2002 we published 21 VFM audits, with an average cost of \$1 million. The average cost for our 2001 VFM audits was also \$1 million. In 2002, we





introduced VFM status reports, publishing the results of five such audits. The average cost of the status reports was \$.5 million.

In 2002, we saw a decrease in the overall variance between budget and actual costs of our VFM audits. The overall budget variance of VFM audits published in 2002 was 11 percent over budget, compared with 18 percent a year ago. The overall budget variance for our VFM status reports was 16 percent.

<i>Exhibit 16 Summary of significant negative variances for VFM chapters reported in 2002</i>				
<b>Audit</b>	<b>Budget costs</b>	<b>Actual costs</b>	<b>Dollar variance</b>	<b>Percentage variance</b>
Abandoned Mines in the North (October)	\$620,000	\$1,005,300	\$385,300	62.2%
Streamlining First Nations Reporting to Federal Organizations – Study (December)	806,448	1,157,180	350,732	43.5
Public Works and Government Services Canada—Acquisition of Office Space (December)	1,265,474	1,491,465	225,991	17.9
Placing the Public's Money Beyond Parliament's Reach (April)	983,416	1,238,633	255,217	26.0
Health Canada—National Health Surveillance (September)	317,579	538,384	220,805	69.5

The budget variance for the study, Streamlining First Nations Reporting to Federal Organizations (Exhibit 16) is largely attributable to unplanned travel costs to remote communities and expanded discussions with departments, agencies, and stakeholders to confirm the facts of our study.

The budget variance for the status report, Health Canada—National Health Surveillance is primarily attributable to changes in methodology after the budget was established. The actual costs are comparable with the other 2002 status reports.

The remaining negative budget variances for VFM audits resulted from decisions to expand the scope of the work as well as employee turnover. Decisions to expand the scope of VFM audits are made after we complete the survey phase of our audits and develop our examination plans. As can be seen by our overall budget variance of 11 percent, the increases in the above table were partially offset by decisions to reduce the scope of planned work on other audits. Employee turnover in a portion of our audits is inevitable and we try to minimize its impact by using a common VFM audit methodology. The quality of our audit products and professional standards also require our audit teams to have collective knowledge of their subject matter necessary to fulfil the requirements of the audit. Cost increases due to employee turnover are largely attributable to the learning time required for new employees.



## Financial audits of Crown corporations and other entities

	2002–03	2001–02
Budget	\$18.5 million	\$17.2 million
Actual costs		
Crown corporations	8.3 million	6.3 million
Other corporations and organizations	6.3	4.9
Territorial organizations	4.9	3.3
International organizations	1.1	0.7
Total actual costs for Crown corporations and other organizations	20.6 million	15.2 million
Budget variance—increase	2.1 million (11 percent)	
Cost variance—increase	5.4 million (36 percent)	

A number of factors contributed to the cost increase of \$5.4 million (36 percent) in our financial audit practice. They are described below.

**Advancing Audit Practices Project.** In 2002–03, the Office began implementing new audit tools and methodology for our annual financial audit practice. Tools include electronic working papers, and the methodology provides our auditors with access to in-depth databases to better enable them to identify and assess audit risks and select audit procedures. The project increased costs as our audit teams began to learn how to use the new tools and methodology. We expect the increase to be temporary as our audit teams will become more experienced in using the new tools and methodology, which should lead to long-term cost reductions.

**Unforeseen audit issues and emerging professional standards.** During our annual financial audits, we may encounter unforeseen audit issues. This normally happens on a number of our audits each year and we increase the nature and extent of our planned work to address these issues. In 2002–03, we increased our work on the Canada Customs and Revenue Agency because of audit requirements related to T3 issues concerning the misallocation of provincial capital gains refunds earned by mutual fund trusts. In addition, the adoption of accrual of tax revenue announced in the 2003 Budget required us to do significantly more audit work on the Agency.

In addition to unforeseen audit issues, over the past year, we have seen a proliferation of new accounting standards having a direct impact on many of our clients. These new standards are part of changes in the profession worldwide that are being implemented in response to recent corporate failures. The new accounting standards that had the most significant impact on our work are accounting for financial instruments, derivatives and guarantees. The new auditing standard for communications with those with oversight



responsibility for the financial reporting process also led to important improvements in our reports to audit committees and management, whom we work with closely to ensure the continued integrity of financial reporting in government.

**New financial work.** The Office has statutory responsibilities for the audits of financial statements of Crown corporations, other federal corporations, agencies and organizations and territorial governments. These audit responsibilities may change if the Auditor General receives new appointments as auditor because of the creation of new entities, amendments to legislation for existing entities, or the application of section 11 of the *Auditor General Act*. In 2002–03, work began, for the first time, on the annual financial audits of the Bluewater Bridge Authority, Canadian Air Transport Security Authority, the Canadian Forces Pension Plan, the Canadian Television Fund-Equity Investment Program, the Financial Consumer Agency of Canada, the Royal Canadian Mounted Police Pension Plan, and the Public Service Pension Plan.

**Departmental corporations.** In 2002–03, a number of departmental corporations changed their accounting policies from stated accounting policies to generally accepted accounting principles. We invested significant resources in providing advice on improved financial reporting for these organizations.

#### **Financial audit of the financial statements of the Government of Canada**

Budget	2002–03	\$6.5 million
Actual costs	2002–03	5.7 million
Actual costs	2001–02	4.6 million
Budget variance—decrease		0.8 million (12 percent)
Cost variance—increase		1.1 million (24 percent)

A number of factors contributed to the increase in the cost of our audit of the financial statements of the Government of Canada. As planned, we did more work on assessing internal controls and new accounting systems and practices that were implemented in departments and agencies under the Financial Information Strategy (FIS). The variance between the budget and actual spending on our audit of the financial statements of the Government of Canada was also related to our assessment of controls. We would have done more work in this area, but had to defer some of it to 2003–04 due to resource constraints.

Also related to the implementation of FIS, in 2002–03, departments and agencies continued to implement new accounting and reporting policies related to inventory, capital assets, environmental liabilities, and other areas. This required us to continue to expand our audit procedures in this area including the examination of over \$40 billion in newly recorded assets and \$40 billion in newly recorded liabilities. An added complexity to this additional audit work was that many of these newly



recorded assets and liabilities were related to historical items or incidents which increased the amount of time required to complete the audit procedures.

As with our financial audits of Crown corporations and other entities, we invested more time on the financial audit of the financial statements of the Government of Canada because of our new audit tools and methodology. We expect this increase to be temporary as our audit teams will become more experienced in using the new tools and methodology, which should lead to long-term cost reductions.

### **Environmental and sustainable development monitoring activities**

Budget	2002–03	\$2.9 million
Actual costs	2002–03	2.7 million
Actual costs	2001–02	2.4 million
Budget variance—decrease		0.2 million (7 percent)
Cost variance—increase		0.3 million (12 percent)

Spending on environmental and sustainable development monitoring activities is composed of the costs of our audits of sustainable development strategies and the costs of coordinating the petition process, monitoring responses, and making sure the questions Canadians pose and the issues they raise are responded to by federal ministers. Our petitions work is reported in the Report of the Commissioner of Environment and Sustainable Development—Exercising Your Right to Know: The Environmental Petitions Process.

About half of the cost variance for our work on environmental and sustainable development monitoring activities is due to economic adjustments for salary and increased costs of services provided without charge. The remaining variance resulted from an increase in the number of petitions received, our decision to audit past ministerial commitments beginning in the October 2003 report and communication of petitions and ministerial responses on our Web site beginning in the fall of 2002.

The budget for our chapter on sustainable development strategies was \$1.1 million and actually cost \$1.3 million resulting in a cost variance of \$.2 million (19 percent). Increased costs were due to changes in the scope of planned work and employee turnover.



## Special examinations of Crown corporations

Budget	2002–03	\$3.8 million
Actual costs	2002–03	3.8 million
Actual costs	2001–02	2.3 million
Budget variance		nil
Cost variance—increase		1.5 million (65 percent)

Crown corporations are required to initiate a special examination of their organization at least once every five years. We perform about 40 examinations over five years. Costs vary depending on the number of examinations under way in a year and on the nature, size complexity, and risk of the corporations being examined. In 2002–03, we worked on 12 special examinations compared to 9 in 2001–02.

In 2002–03, we completed the examination of Farm Credit Canada—the last special examination of the third round of examinations. Due to resources constraint, we were unable to complete the examination before the statutory deadline. The report was provided to the Farm Credit Corporation 5 months after the statutory deadline. We also completed the first five examinations of the fourth cycle (the Atlantic Pilotage Authority, Atomic Energy of Canada Limited, the Great Lakes Pilotage Authority, the International Development Research Center, and the National Capital Commission). We had planned to complete three other examinations in 2002–03—Cape Breton Development Corporation, Defence Construction (1951) Limited, and VIA Rail Canada Inc. These examinations were completed in early 2003–04.

## Assessments of performance reports

Budget	2002–03	\$1.2 million
Actual costs	2002–03	0.9 million
Actual costs	2001–02	1.0 million
Budget variance—decrease		0.3 million (25 percent)
Cost Variance—decrease		0.1 million (10 percent)

The cost of the assessments of performance reports remained stable in 2002–03 compared with 2001–02 (decreased by \$0.1 million).

Three government agencies (the Canadian Food Inspection Agency, the Canada Customs and Revenue Agency, and the Parks Canada Agency) must produce annual reports that include information on their performance. The Office is required to assess the fairness and reliability of the performance information in the reports.



## Professional practice

Budget	2002–03	\$7.2 million
Actual costs	2002–03	7.4 million
Actual costs	2001–02	6.1 million
Budget variance—increase		0.2 million (3 percent)
Cost variance—increase		1.3 million (21 percent)

In 2002–03, our costs in this area increased by \$1.3 million, compared with 2001–02. Note 8 of our audited financial statements (see page 68) provides a breakdown of our professional practice expenses by type for 2002–03 with comparative figures for 2001–02.

As planned, we invested further resources in our advancing audit practices project to implement new tools and methodology for annual financial audits and the planning of our VFM audits. This resulted in increased methodology costs of about \$.6 million.

In 2002–03, we worked with other national audit offices to establish an external peer review process. We will use this process for the external review of our VFM audit practice planned for 2003–04 by other national audit offices. This increased costs by \$.5 million.

## Space renewal

Working with Public Works and Government Services Canada (PWGSC), we are renewing the work space of our employees at our Ottawa office. Renovations began in January 2002 and are expected to be completed in 2003–04. The Office's cost of acquiring furniture and equipment was estimated at \$3.5 million. Actual spending of \$2.2 million in 2002–03 was less than expected and pertains to the deferral of furniture purchases because of construction delays experienced by PWGSC. These purchases are planned for 2003–04.

In 2003–04, we plan to spend a further \$2 million on furniture and equipment bringing total actual costs to \$4.2 million. Accordingly, over the life cycle of the space renewal project, we expect to exceed planned costs for furniture and equipment by \$.7 million. Increased costs are due to an underestimation of actual costs; changes made to accommodate an increase in the number of Office employees; and improvements, which became apparent as construction progressed.

The costs of acquiring furniture and equipment for space renewal is capitalized in our financial statements in accordance with generally accepted accounting principles.



## Financial tables

**Table 1 Summary of voted appropriations (\$ millions)**

Vote	Office of the Auditor General	2002–03		
		Total planned spending	Total appropriations	Total actual spending
20	Operating expenditures	62.5	65.1	63.0
(S)	Contributions to employee benefit plans	8.1	8.7	8.7
	<b>Total</b>	70.6	73.8	71.7

Total appropriations of \$73.8 million include \$68.6 million in Main Estimates and \$5.2 million in Supplementary Estimates, adjustments, and transfers.

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

Office of the Auditor General	2002–03		
	Total planned spending	Total appropriations	Total actual spending
Full-time equivalents	570	580	565
Operating expenses	70.2	73.4	71.3
Grants and contributions	0.4	0.4	0.4
Total gross expenditures	70.6	73.8	71.7
Other revenues and expenditures			
Non-respendable revenues	(0.8)	(0.8)	(1.3)
Cost of services provided by other departments	8.8	8.9	8.9
Net cost of program <sup>1</sup>	78.6	81.9	79.3

<sup>1</sup> The net cost of operations reported in our audited financial statements prepared in accordance with generally accepted accounting principles (GAAP) is \$78.3 million or \$1.0 million less than the total actual spending reported above. Accounting for capital assets and employee benefits makes up this difference.

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

Office of the Auditor General	2002–03				
	Actual 2000–01	Actual 2001–02	Total planned spending	Total authorities	Total actual spending
Legislative auditing	58.6	62.5	70.6	73.8	71.7



**Table 4 Revenues: spendable and non-spendable (\$ millions)**

<b>Office of the Auditor General</b>		<b>2002–03</b>			
<b>Legislative auditing</b>	<b>Actual 2000–01</b>	<b>Actual 2001–02</b>	<b>Planned revenues</b>	<b>Total authorities</b>	<b>Actual</b>
Non-spendable revenues	0.8	0.9	0.8	–	1.3

The Office charges direct costs for the audits of the International Civil Aviation Organization and the United Nations Educational Scientific and Cultural Organization (UNESCO). The funds are not used by the Office but returned to the Consolidated Revenue Fund as non-spendable revenue.

**Table 5 Transfer payments (grants and contributions) (\$ millions)**

<b>Office of the Auditor General</b>		<b>2002–03</b>			
<b>Legislative auditing</b>	<b>Actual 2000–01</b>	<b>Actual 2001–02</b>	<b>Planned spending</b>	<b>Total authorities</b>	<b>Actual</b>
Contribution	0.4	0.4	0.4	0.4	0.4

The Office provides financial support to the CCAF-FCVI Inc. in the form of annual contributions. The mission of CCAF-FCVI Inc. is to provide exemplary leadership and build both knowledge and capacity for effective governance and meaningful accountability, management, and audit. The public sector is the main focus and beneficiary of its work.

**Table 6 Contingent liabilities (\$ millions)**

<b>List of contingent liabilities</b>	<b>Amount of contingent liability</b>		
	<b>31 March 2001</b>	<b>31 March 2002</b>	<b>Current as of 31 March 2003</b>
Claims, pending and threatened litigation	–	–	–
Litigations	4.7	5.0	5.3
Total	4.7	5.0	5.3

In 2000–01, the Public Service Alliance of Canada filed a pay equity suit against the Crown alleging that discrimination based on sex had occurred between 1982 and 1997 in seven separate employers. The Office, although not a party to the suit, is one of the seven employers named in the suit. The suit requests that the Treasury Board or the responsible employer 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 estimated amount of the contingent liability for employees of the Office of the Auditor General employed by the Office between 1982 and 1997 is about \$5.25 million. Further, in the opinion of management, the outcome of the suit is not determinable at this time and accordingly, no liability has been recognized in the financial statements.





**Table 7 Contracting activity for professional services**

Table 7 highlights the Office's contracting activity for professional services in 2002. 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 Contract 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: the need is one of pressing urgency, it is not in the public interest to solicit bids due to the nature of the work, or 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-related services to 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.

In 2002, the majority of contracts were awarded by the Office on a non-competitive basis. Over 80 percent of these contracts had original values of less than \$15,000. We awarded one contract for \$28,800 on a non-competitive basis for recruitment services to support increased hiring activity that took place in 2002–03.

	Original contracts for less than \$25,000 <sup>1</sup>			Original contracts for \$25,000 or more <sup>1</sup>		
	(\$ thousands)	Number	Percentage	(\$ thousands)	Number	Percentage
Competitive contracts	135.2	9	2.2	1,320.4	24	96.0
Non-competitive contracts	3,438.3	466	97.8	25.4	1	4.0
Total	3,573.5	475	100.0	1,345.8	25	100.0

<sup>1</sup>Fees only

**Table 8 Compensation and benefits**

The following is a summary of compensation and selected benefits paid to Office employees by level. Office employees receive benefits comparable to other federal government employees, which are not included in this table.

Position	FTEs <sup>1</sup>	Salary (\$)	Bilingual bonus (\$)	Performance pay (\$)	Automobile <sup>2</sup> (\$)	Club membership (\$)	Total (\$)
Auditor General	1	250,200 <sup>3</sup>			4,700	551	255,451
Deputy Auditor General	0.5	173,460 – 207,635		0 – 14,000			173,460 – 221,635
Assistant Auditors General and Commissioner of the Environment and Sustainable Development	10	123,345 – 163,210		0 – 14,000		551 <sup>4</sup>	123,345 – 177,761
Principals	54	98,280 – 126,760		0 – 11,250			98,280 – 138,010
Directors	112	73,225 – 101,700		0 – 9,000			73,225 – 110,700
Auditors	206.5	30,750 – 76,000	800	0 – 3,000			30,750 – 79,800
Audit service officers	64	46,125 – 85,349	800				46,125 – 86,149
Audit service specialists	117	28,894 – 53,540	800				28,894 – 54,340
	565						

<sup>1</sup> Full-time equivalents (FTEs) used in 2002–03.

<sup>2</sup> Taxable benefit for the personal use of an automobile for the 2002 calendar year.

<sup>3</sup> The salary of the Auditor General is set by statute under subsection 4(1) of the *Auditor General Act* and is equal to the salary of a puisne judge of the Supreme Court of Canada.

<sup>4</sup> The Office pays a club membership for the Commissioner of the Environment and Sustainable Development.



**Table 9 Travel and hospitality expenses (\$)**

	<b>Domestic travel</b>	<b>International travel</b>	<b>Hospitality expenses</b>
Sheila Fraser, Auditor General of Canada	29,625	11,085	8,344
Michael McLaughlin, Deputy Auditor General	8,048	–	578
Johanne G��linas, Commissioner of the Environment and Sustainable Development	10,695	37,391	12,124

**Travel.** Domestic travel directly supports various Office activities such as our audits of federal department and agencies, Crown corporations and the territories; speeches about the work of the Office; and our membership in various organizations, such as the Canadian Council of Legislative Auditors, and the CCAF-FCVI Inc.

The Office participates in the activities of the International Organization of Supreme Audit Institution (INTOSAI) and serves on a number of its committees and working groups. International travel is also undertaken to audit international activities of departments and agencies, such as the Canadian International Development Agency and the Department of Foreign Affairs and International Trade.

Travel expenses include the cost of transportation, accommodation, meals, hospitality while travelling, and other travel expenses (e.g. incidentals and airport improvement taxes). Hospitality included in travel expenses are as follows: Sheila Fraser—\$236, Michael McLaughlin—\$53 and Johanne G  linas—\$8,711.

**Hospitality.** Hospitality expenses are incurred to support meetings with parliamentarians, senior officials of government departments and agencies, external advisors, employees of the Office of the Auditor General and representatives of other organizations to discuss the work of the Office. As the Chair and Secretariat of the INTOSAI Working Group on Environmental Auditing (WGEA), the Office exercises through the Commissioner of the Environment and Sustainable Development its leadership in supporting the WGEA members, and organizing meetings and conferences. In 2002–03, meetings were held in England, South Africa, and Costa Rica.

A schedule of the travel and hospitality expenses for [Sheila Fraser](#), [Michael McLaughlin](#), and [Johanne G  linas](#) are available at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).



## **Implementation of accrual financial statements**

Over the past several years, as part of the Financial Information Strategy, the Receiver General for Canada and departments have worked to put in place new financial information systems and to acquire the accounting expertise required to implement full accrual accounting. The Treasury Board Secretariat is responsible for developing the necessary accounting policies and training programs to implement full accrual accounting government-wide.

National and international accounting standards bodies, and the Auditor General, strongly support full accrual accounting. It is the accounting practice already used by many provinces and by national governments such as the United States, Australia and New Zealand. Under full accrual accounting, an entity's financial statements provide a more comprehensive and up-to-date picture of its financial situation and better reflect the impact of economic events and decisions made during the fiscal year. Better information means improved transparency and accountability.

The Office first prepared accrual financial statements in accordance with generally accepted accounting principles in 2000-01. The financial statements for 2002-03 are presented at the end of this Section. Note 3 to the financial statements provides a reconciliation of the net cost of operations determined in accordance with generally accepted accounting principles to parliamentary appropriations used. Information on the use of appropriations is reported in the financial tables in this Section.

In general terms, the use of appropriations focuses on spending and the acquisition of resources. Accrual accounting reports the cost of activities that have occurred or revenue that was earned during the year as well as assets to be used and financial obligations to be settled in the future.





# Financial Statements



Auditor General of Canada  
Vérificatrice générale du Canada

## 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 Mary Clennett in black ink.

Mary Clennett, CA  
Comptroller and  
Senior Financial Officer

Ottawa, Canada  
27 June 2003



## 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 2003 and the statements of operations, deficit 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 2003, 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  
27 June 2003



**Office of the Auditor General of Canada  
Statement of Financial Position  
as at 31 March**

	2003	2002
<b>Assets</b>		
<b>Current assets</b>		
Due from the Consolidated Revenue Fund	\$ 5,516,073	\$ 7,444,724
Accounts receivable	1,235,867	382,752
	6,751,940	7,827,476
<b>Capital assets (note 4)</b>	5,781,745	4,227,893
	\$ 12,533,685	\$ 12,055,369
<b>Liabilities and Deficit</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Due to employees	\$ 2,575,357	\$ 1,716,514
Due to others	2,228,197	4,528,965
Vacation pay	2,635,639	2,495,328
Current portion of employee severance benefits	2,536,832	1,578,501
	9,976,025	10,319,308
<b>Employee severance benefits (note 5)</b>	9,307,475	9,561,661
<b>Deficit (note 6)</b>	( 6,749,815)	( 7,825,600)
	\$ 12,533,685	\$ 12,055,369

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

*Mary Clennett*

Mary Clennett, CA  
Comptroller and  
Senior Financial Officer



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

	<b>2003</b>	<b>2002</b>
<b>Expenses (note 7)</b>		
Value-for-money audits	\$ 38,397,872	\$ 36,245,599
Financial audits of Crown corporations, territorial governments and other organizations	20,618,025	15,225,443
Financial audit of the summary financial statements of the Government of Canada	5,692,527	4,562,450
Special examinations of Crown corporations	3,845,356	2,342,904
Environment and sustainable development monitoring activities	2,677,215	2,418,949
Assessments of agency performance reports	897,874	1,001,191
<b>Total cost of audits</b>	<b>72,128,869</b>	<b>61,796,536</b>
Professional practice (note 8)	7,426,172	6,153,612
<b>Total cost of operations</b>	<b>79,555,041</b>	<b>67,950,148</b>
<b>Costs recovered</b>		
International audits	787,658	731,126
Other	484,402	158,866
<b>Total costs recovered</b>	<b>1,272,060</b>	<b>889,992</b>
<b>Net cost of operations</b>	<b>\$ 78,282,981</b>	<b>\$ 67,060,156</b>

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





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

	<b>2003</b>	<b>2002</b>
<b>Deficit, beginning balance</b>	\$ ( 7,825,600)	\$ ( 8,996,190)
<b>Total cost of operations</b>	( 79,555,041)	(67,950,148)
<b>Parliamentary appropriations used (note 3)</b>	71,735,350	62,462,189
<b>Services provided without charge by other government departments (note 7)</b>	8,895,476	6,658,549
<b>Deficit, ending balance</b>	\$ ( 6,749,815)	\$ ( 7,825,600)

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**

	<b>2003</b>	<b>2002</b>
<b>Operating activities</b>		
Cash Payments	\$ ( 71,826,063)	\$ ( 60,172,867)
Cash Receipts	1,272,060	889,992
<b>Cash used in operating activities</b>	<b>( 70,554,003)</b>	<b>( 59,282,875)</b>
<b>Investing activities</b>		
Capital asset acquisitions	( 3,160,988)	( 2,610,634)
Proceeds from the disposal of capital assets	50,990	9,387
<b>Cash used in investing activities</b>	<b>( 3,109,998)</b>	<b>( 2,601,247)</b>
<b>Financing activities</b>		
Parliamentary appropriations used (note 3)	71,735,350	62,462,189
<b>Cash provided by financing activities</b>	<b>71,735,350</b>	<b>64,462,189</b>
<b>Increase (Decrease) in Due from the Consolidated Revenue Fund during the year</b>	<b>( 1,928,651)</b>	<b>578,067</b>
<b>Due from the Consolidated Revenue Fund, beginning of year</b>	<b>7,444,724</b>	<b>6,866,657</b>
<b>Due from the Consolidated Revenue Fund, end of year</b>	<b>\$ 5,516,073</b>	<b>\$ 7,444,724</b>

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 2003**

**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 organizations 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 summary financial statements of the Government of Canada, financial audits of Crown corporations, territorial governments and other organizations, 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*, the Office is a department of the Government of Canada for the purposes of that *Act* and is listed in Schedule 1.1.

**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 reported directly in the Statement of Deficit 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. Fees for international audits generally recover direct costs and are recorded on an accrual basis. Amounts recovered are deposited in the Consolidated Revenue Fund and cannot be re-spent by the Office.



d) Due from the Consolidated Revenue Fund

The financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of Canada. The Due from the Consolidated Revenue Fund 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 begins when assets are put into use and is recorded on the straight-line method over the estimated useful lives of the assets as follows:

<b>Assets</b>	<b>Useful life</b>
Informatics hardware and infrastructure	3 years
Office equipment	4 years
Furniture and fixtures	7 years
Informatics software	3 years
Motor vehicle	5 years
Leasehold improvements	10 years

f) Employee's severance benefits and vacation pay

Employee's 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's severance benefits and vacation pay liabilities 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 reported directly in the Statement of Deficit.



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 directly to them. 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 the Public Service Pension Plan

The Office's eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Both the employees and the Office contribute to the cost of the Plan. Contributions by the Office with respect to 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 employee severance benefits 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. Parliamentary appropriations**

The Office is funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Deficit 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 as follows:



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

	<b>2003</b>	<b>2002</b>
Net cost of operations	\$ 78,282,981	\$ 67,060,156
Less: expenses not requiring the use of appropriations		
Amortization of capital assets	( 1,607,136)	( 1,267,535)
Services provided without charge by other government departments	( 8,895,476)	( 6,658,549)
Add: costs recovered	1,272,060	889,992
	69,052,429	60,024,064
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations	( 478,067)	( 172,509)
Parliamentary appropriations applied to operations	68,574,362	59,851,555
Capital asset acquisitions funded by appropriations	3,160,988	2,610,634
Total parliamentary appropriations used	\$ 71,735,350	\$ 62,462,189

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

	<b>2003</b>	<b>2002</b>
Parliamentary appropriations voted:		
Operating expenditures	\$ 65,008,663	\$ 59,191,100
Statutory contributions to employee benefit plans	8,748,270	6,997,000
Proceeds from disposal of capital assets	50,990	9,387
	73,807,923	66,197,487
Less lapsed appropriations - operating expenditures <sup>1</sup>	( 2,072,573)	( 3,735,298)
Total parliamentary appropriations used	\$ 71,735,350	\$ 62,462,189

1. Subject to parliamentary approval, organizations can carry forward into the next fiscal year up to 5 percent of their operating budgets (based on Main Estimates program expenditures). In 2002-03, this amount is \$3.0 million (\$2.4 million in 2001-02) for the Office.



#### 4. Capital assets

<b>Cost</b>	<b>31 March 2002</b>	<b>Additions</b>	<b>Disposals</b>	<b>31 March 2003</b>
Informatics Hardware and Infrastructure	\$ 2,691,850	\$ 189,663	\$ 942,644	\$ 1,938,869
Office Equipment	641,488	351,431	20,993	971,926
Furniture and Fixtures	156,912	2,178,749	88,000	2,247,661
Informatics Software	2,872,361	53,780	–	2,926,141
Motor Vehicle	24,305	–	–	24,305
Leasehold Improvements	1,213,274	387,365	–	1,600,639
	\$ 7,600,190	\$ 3,160,988	\$ 1,051,637	\$ 9,709,541

<b>Accumulated amortization</b>	<b>31 March 2002</b>	<b>Amortization</b>	<b>Disposals</b>	<b>31 March 2003</b>
Informatics Hardware and Infrastructure	\$ 2,149,874	\$ 381,710	\$ 942,644	\$ 1,588,940
Office Equipment	304,372	121,583	20,993	404,962
Furniture and Fixtures	108,444	100,019	88,000	120,463
Informatics Software	807,987	939,251	–	1,747,238
Motor Vehicle	1,620	4,861	–	6,481
Leasehold Improvements	–	59,712	–	59,712
	\$ 3,372,297	\$ 1,607,136	\$ 1,051,637	\$ 3,927,796
<b>Net book value</b>	\$ 4,227,893			\$ 5,781,745

#### 5. Employee's severance benefits

In 2003, the Office paid \$276,874 (\$213,479 in 2002) for severance benefits to employees and expensed \$ 981,019 (\$707,662 in 2002).

#### 6. Deficit

The deficit 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's severance benefits and vacation pay liabilities.



## 7. Summary of Expenses by Major Classification

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

	2003	2002
Salaries and Employee Benefits	\$ 56,725,505	\$ 47,711,852
Professional Services	8,306,607	7,115,171
Office Accommodation	5,816,564	4,076,074
Travel, Relocation and Communication	4,429,505	4,200,831
Informatics, Informatics Maintenance and Repairs, Office Equipment, Furniture and Fixtures	2,752,033	3,335,177
Printing and Publications Services	774,745	629,148
Contribution to the CCAF-FCVI Inc.	378,036	377,343
Utilities, Materials and Supplies and other payments	372,046	504,552
<b>Total cost of operations</b>	<b>\$ 79,555,041</b>	<b>\$ 67,950,148</b>

In 2003, the total cost of operations included services provided without charge by other government departments totaling \$ 8,895,476 (\$6,658,549 in 2002). This is composed of \$5,816,564 (\$4,076,074 in 2002) for accommodation and \$3,078,912 (\$2,582,475 in 2002) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan.

Some of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

## 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. External review includes the cost of participating in the external reviews of other national legislative audit offices and being the subject of an external review.





	<b>2003</b>	<b>2002</b>
Methodology and knowledge management	\$ 3,609,059	\$ 3,046,717
International activities	2,352,551	2,167,280
External review	519,296	–
Canadian Council of Legislative Auditors	418,074	393,838
Contribution to the CCAF-FCVI Inc.	378,036	377,343
Participation in standard-setting activities	149,156	168,434
<b>Professional Practice</b>	<b>\$ 7,426,172</b>	<b>\$ 6,153,612</b>

## 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 between 1982 and 1997 in seven separate employers. The Office, although not a party to the suit, is one of the seven employers named in the suit. The suit requests that the Treasury Board or the responsible employer 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 estimated amount of the contingent liability for employees of the Office of the Auditor General employed by the Office between 1982 and 1997 is about \$5.25 million. Further, in the opinion of management, the outcome of the suit is not determinable at this time and accordingly, no liability has been recognized in the financial statements.

## 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 organizations 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.

In 2003, the Office incurred expenses of \$22,275,386 (\$14,883,468 in 2002) and recovered costs of \$1,521,435 (\$3,463 in 2002) 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 \$8,895,476 (\$6,658,549 in 2002) as described in note 7.



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

	<b>2003</b>	<b>2002</b>
Accounts receivable	\$ 1,111,492	\$ 112,396
Accounts payable	863,225	1,732,223

## **11. Retirement benefits**

Contributions to the Public Service Pension Plan 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 \$5,922,577 for the year ended 31 March 2003 (\$4,736,969 for 2002).



# SECTION 5 — Other Information

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## Crosswalk between the 2002 and the 2003 Performance Reports

There are a few minor changes in the structure of our 2003 *Performance Report*.

We continue to refine our results chain, and it is now well integrated with the presentation of our performance.

Some information previously included in Section 2—Context, namely information on human resources, audit practices, and our sustainable development strategy, has been moved to Section 3—Performance. Section 3 now includes information on advancing the Auditor General’s five focus areas, as well as information on methodology activities and modern comptrollership.

### Statutory reports

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• 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 ( <a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a> ).
• 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 ( <a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a> ).
• 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 ( <a href="http://www.pwgsc.gc.ca/recgen/text/pubacc-e.html">www.pwgsc.gc.ca/recgen/text/pubacc-e.html</a> ).
• 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 organizations, 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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## Methodological endnotes

1. During 2001–02, we conducted a survey of members of Parliament, including those sitting on the Standing Committee on Public Accounts and the Standing Committee on Environment and Sustainable Development. We surveyed their understanding of our Office, our credibility, and our performance, and learned about issues they would like the Auditor General to address in the coming years. The survey results provided us with some positive indications of the relevance and usefulness of our work and highlighted areas for improvement.
2. When we count the number of hearings and briefings in which we participate, we consider our appearances before the Standing Committee on Public Accounts as well as other parliamentary committees of the House of Commons and the Senate. The other indicator (value-for-money audits reviewed by parliamentary committees) is a ratio of 2002–03 audits that resulted in a hearing to the number of audits published in the same fiscal year. We report the ratio of audits reviewed by parliamentary committees to those published in the fiscal year. This review can occur in a subsequent fiscal year, but would contribute to the Office’s performance for the year that the report was published. Any revisions of historical numbers would be noted. Finally, the variance between the proportion of audits reviewed by parliamentary committees (41 percent in 2002–03 compared with 84 percent in 2001–02) must be interpreted cautiously. We reported fewer audits in 2001–02, 25 resulting in 21 related audits with hearings, compared with 39 audits reported in 2002–03, resulting in 16 audits with hearings. The higher number of audits compared with the number of hearings explains variances in our performance. In 2002–03 committees held more than one hearing on topics such as the firearms program, the social insurance number, and Groupaction, leaving less time to study other areas.
3. We analyze the Standing Committee on Public Accounts reports on the Auditor General’s reports in order to gauge the extent of endorsement of our recommendations. We consider that the Committee endorses our recommendations when its own recommendations parallel ours.

Because the Committee’s reports of audits published at the end of the current year are usually tabled during the next fiscal year, data for assessing our 2002–03 performance are not sufficient to accurately reflect our performance. The Committee expects to table another report on the review of our 2002–03 audits in addition to the eight reports it has already written. Once the Committee has done so, we will be able to assess our 2002–03 performance and show the results in our next *Performance Report*.

4. The Office conducts a survey of the senior management of Crown corporations and federal agencies that require an annual financial audit, and international organizations we audit. We ask them about the usefulness of the audit information and the quality of our audit process. The survey of chief financial officers and chairs of audit committees takes place every two years. The first was in 1997, and the third in 2001. Because we



build our chain of results in 2000–01, we only have trend data for some key performance indicators. In some instances, survey questions that are compared with survey results of previous years have changed but were similar enough to allow comparisons. In addition, though not all surveyed organizations had a chief financial officer and a chair, we surveyed 62 officers and 51 chairs and received a response from 76 percent of them.

5. The Office surveys Crown corporations, at the end of each special examination, on the process and the information we provide to senior management and the board of directors.
6. Audit teams are responsible for tracking the status of outstanding recommendations. Their assessment is based on knowledge of the organization's business, a review of its documentation, and, in some cases, interviews with its officials. We consider the reliability of this information to be limited.

The ratios reported in Exhibit 13 outline recommendations for which corrective action has been fully implemented to our satisfaction. We have modified this performance indicator to focus more directly on departments' success in fully implementing our recommendations after a reasonable time. We use a four-year interval because our historical data show that departments and agencies often need this time to complete action on our recommendations. It also excludes recommendations arising from government-wide audits and audits carried out by the Commissioner of the Environment and Sustainable Development.

In 1998, we monitored 113 recommendations stemming from entity/program and sectoral audits. Of these 48 recommendations were fully implemented at the end of 2002.

During 2003–04, we will be working to improve the quality and integrity of the data underlying this indicator. For that reason, we have excluded from our base those recommendations arising from our government-wide audits and audits carried out by the Commissioner of the Environment and Sustainable Development. Specific initiatives are under way related to these recommendations as well as to certain other factors affecting this performance indicator. Until these improvements are completed and we can establish credible baseline information, we will not set targets for this indicator.

7. The survey of employees of the Office of the Auditor General was administered using the Internet. A total of 589 invitations were sent to employees. A total of 412 employees completed the survey. The overall response rate is therefore 69.6 percent. The overall margin of errors associated with this survey is  $\pm 2.66$  percent, 19 times out of 20 for the total survey population.



## Web references

The following list includes web links to many items that could be of interest to the reader, but that are not critical to the reporting of our performance.

### Office of the Auditor General of Canada

Office of the Auditor General	<a href="http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/menue.html">www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/menue.html</a>
Sheila Fraser, Auditor General of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html</a>
Commissioner of the Environment and Sustainable Development	<a href="http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/environment.html">www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/environment.html</a>
Johanne G�elinas, Commissioner	<a href="http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu1_e.html#commissioner">www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu1_e.html#commissioner</a>
Enabling Legislation	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu3e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99menu3e.html</a>
Organizational chart	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/03org_e.html/\$file/orgchart_e.pdf">www.oag-bvg.gc.ca/domino/other.nsf/html/03org_e.html/\$file/orgchart_e.pdf</a>
Internal Audit Reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html</a>
Sustainable development strategy	<a href="http://www.oag-bvg.gc.ca/domino/reports.nsf/html/0035ce.html">www.oag-bvg.gc.ca/domino/reports.nsf/html/0035ce.html</a>
Performance Report 2003, tables 10 and 11 (see section 4–Financial Performance/cost of operations)	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99estm_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99estm_e.html</a>
Reports of the Auditor General	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html</a>
Auditor General’s travel and hospitality expenses	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/2003exp_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/2003exp_e.html</a>

### Government of Canada

Parliament	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Treasury Board Secretariat	<a href="http://www.tbs-sct.gc.ca">www.tbs-sct.gc.ca</a>
Results for Canadians: A Management Framework for the Government of Canada	<a href="http://www.tbs-sct.gc.ca/res_can/rc_e.html">www.tbs-sct.gc.ca/res_can/rc_e.html</a>
Financial Information Strategy	<a href="http://www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp">www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp</a>

### Professional organizations

International Organization of Supreme Audit Institutions (INTOSAI)	<a href="http://www.intosai.org">www.intosai.org</a>
INTOSAI - Working Group on Environmental Auditing	<a href="http://www.environmental-auditing.org">www.environmental-auditing.org</a>
Canadian Council of Legislative Auditors	<a href="http://www.ccola.ca">www.ccola.ca</a>



Canadian Institute of Chartered Accountants	<a href="http://www.cica.ca">www.cica.ca</a>
CCAF-FCVI Inc.	<a href="http://www.ccaf-fcvi.com">www.ccaf-fcvi.com</a>
Financial Management Institute	<a href="http://www.fmi.ca">www.fmi.ca</a>
International Federation of Accountants	<a href="http://www.ifac.org">www.ifac.org</a>
Institute of Internal Auditors	<a href="http://www.theiia.org">www.theiia.org</a>
United Nations Panel of External Auditors	<a href="http://www.unsystem.org/auditors/external.htm">www.unsystem.org/auditors/external.htm</a>
Canadian Evaluation Society	<a href="http://www.evaluationcanada.ca">www.evaluationcanada.ca</a>



