



Office of the Auditor General of Canada

2003–04 Estimates

Performance Report

Approved

Sheila Fraser, FCA
Auditor General of Canada

Honourable Ralph Goodale, P.C., MP
Minister of Finance

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Section I—Message from the Auditor General of Canada



Sheila Fraser, Auditor General of Canada
Photo by Michael Bedford

I am pleased to present the Office's *2003–04 Performance Report*.

As Auditor General, I serve Parliament by furnishing the independent information, advice, and assurance it needs to effectively hold the government to account for its stewardship of public funds. Our audits help parliamentarians consider such issues as accountability, performance, compliance with laws and regulations, and environmental consequences in their work.

My Office provides answers to important questions. Our financial audits indicate whether the government is keeping proper accounts and records and presenting its financial information fairly. This offers assurance on the credibility of government financial reports.

Our performance audits go beyond the numbers to show whether government programs are being managed with due regard to economy, efficiency, and the environment, and with measures in place to determine effectiveness. Performance auditing examines management practices, controls, and reporting systems with a focus on results, and makes recommendations for improvement.

Recently, it became apparent that the term we were using for this type of auditing—value-for-money—could lead to confusion about our role. It is ultimately Parliament's job to judge whether government programs are delivering value for money; it is our job to assess the performance of government in managing those programs. Thus calling what we do “performance auditing” is more accurate; it is also more consistent with international usage.

It would be difficult to present our *2003–04 Performance Report* without mentioning the unprecedented attention certain audits received. The first one, tabled in September 2003, was our *Report on the Office of the Privacy Commissioner of Canada*, which was done in response to a request from the House of Commons Standing Committee on Government Operations and Estimates. The second was our government-wide audit of sponsorship, advertising, and public opinion research, which became public in February 2004. Both these audits confirmed serious shortcomings and led to significant attention from the Standing Committee on Public Accounts and the government.

This year saw a ground-breaking achievement in government accounting—it was the first time that the Government of Canada presented its summary financial statements using full accrual accounting. This move, which my Office has been encouraging for some time, required considerable effort on the part of many public servants, as well as my auditors. All those involved can be justly proud that they have contributed to a more accurate picture of the government's financial position.

The Office's credibility with Parliament and Canadians rests largely on the quality of our work. In 2003–04, we were involved in three key initiatives to improve our audit practice.

- The first was an international peer review of our performance audit practice. I am proud to say that we were the first national audit office in the world to request such a review by a team of our international peers. The review concluded that the Office's policies and processes reflect recognized standards of professional practice and are implemented effectively to produce independent, objective, and reliable information for Parliament.

There are always opportunities to do better, however, and the review team made several constructive suggestions for improving our performance audit practice that we will be acting on in 2004–05. One of these was to formulate recommendations that are more specific and action-oriented. We have been consulting with our stakeholders to develop new guidance for our auditors, which will be complemented by training. Over time, this change should result in more of our recommendations being fully implemented by government departments and agencies, which will bring us closer to the ultimate outcome we seek—better managed and more accountable government.

The Public Accounts Committee reported to Parliament that the international peer review was an “independent and external confirmation of the soundness of the Office's value-for-money practice” and that it “provides additional assurances about the integrity of the accountability process of the Office of the Auditor General of Canada and adds credibility to its efforts.”

- The second initiative was the final phase of a multi-year project to modernize our financial audit practice. Specifically, we introduced a new electronic software package complete with supporting audit methodology and guidance, and continued our work on evaluating internal financial control systems in selected departments and agencies, as well as Crown corporations and other entities. With this new technology, methodology, and training now in place, we are beginning to reap the benefits of our investment: more risk-focused audits, more timely recommendations to departments and agencies, and ultimately lower audit costs.
- The third initiative was a three-year strategy to strengthen our role in ensuring that the federal government's policies and programs consider the environment and foster sustainable development. We acquired this role in 1995 with the expansion of our mandate and the establishment of the position of Commissioner of the Environment and Sustainable Development within our Office. Auditing most areas of the federal government puts us in a good position to ask whether departments and agencies are paying attention to their impact on the environment, and to recommend necessary improvements. In the future, we intend to be more systematic in our efforts and to provide our auditors with better tools to do their work.

This report confirms that our work makes a difference in the way government operates. Parliamentarians indicate that they find our work useful and not only do the organizations we audit accept our findings, they also act on our recommendations, as demonstrated by our annual status report.

Behind all our achievements is an exceptionally competent, professional, and dedicated work force. While there is still, and always will be, room for improvement, our latest employee survey indicates that our efforts to make the Office a rewarding and respectful place to work are bearing fruit. I'm pleased to say that our employees continue to express a high-degree of satisfaction and pride in the Office. I would like to thank each and every one of them for their unique contribution to the Office's success over the past year.



Sheila Fraser, FCA
Auditor General of Canada

13 September 2004

Management's representation statement of responsibility

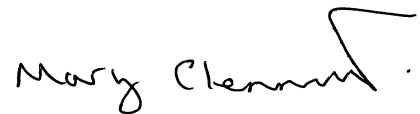
The management of the Office of the Auditor General of Canada is responsible for preparing this *2003–04 Performance Report*. The report was prepared under the direction of the management of the Office and in accordance with Treasury Board guidelines on performance reporting to Parliament.

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 judgments. Limitations on report 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 version. 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
13 September 2004

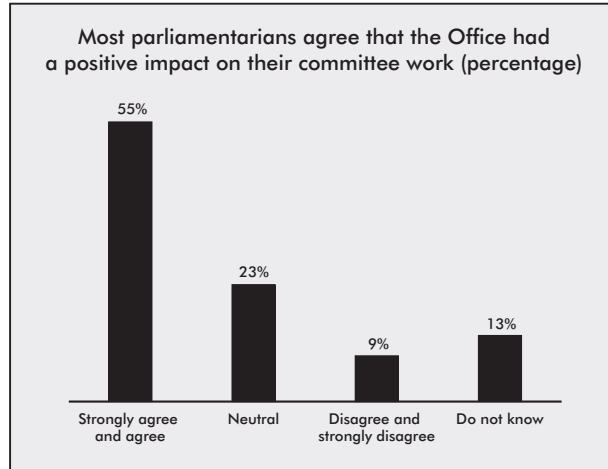
2003-04 performance highlights

Performance results

The following are highlights for our 2003–04 performance results. For detailed information, see Section III—Reporting on Results on page 15.

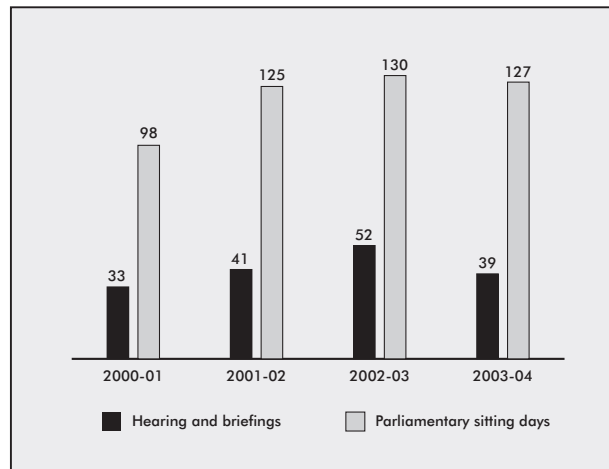
- **Over half of parliamentarians we surveyed consider that the recommendations and findings of the Office had a positive impact on their committee work.**

We conducted our survey in 2002 and intend to survey parliamentarians again in the future. We did not conduct a survey in 2003–04 as planned due to changes in government leadership and the federal election. For details see page 17.



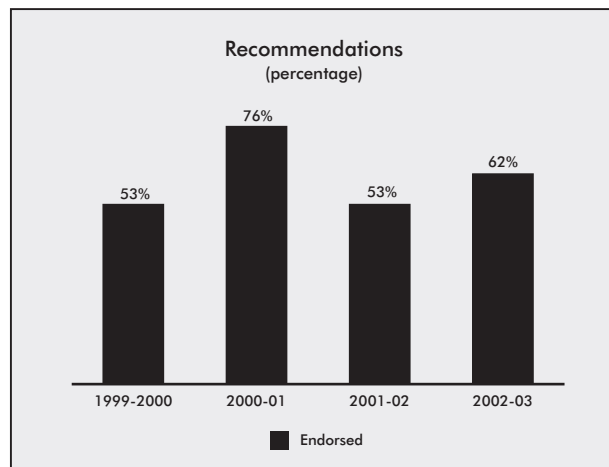
- **We participated in 39 parliamentary hearings and briefings.**

Twenty-two of those hearings and briefings were with the Standing Committee on Public Accounts, while seventeen of them were with other standing committees or Senate committees. We participated in fewer hearings in 2003–04 because the Public Accounts Committee spent many weeks reviewing our audit of the Sponsorship Program. As a result, less time was available for our other audits to be reviewed. For details see page 18.



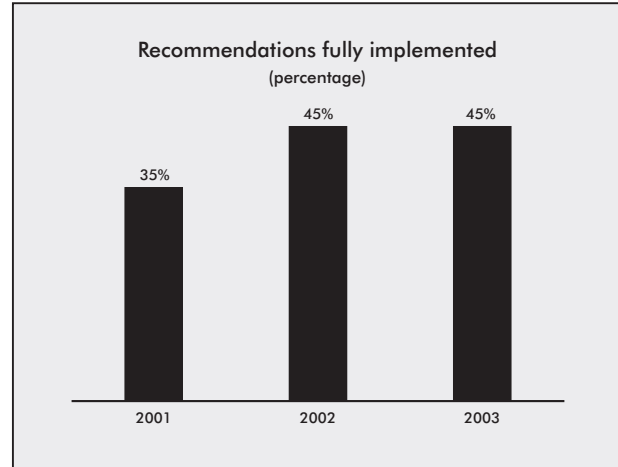
- **The Standing Committee on Public Accounts endorsed 62 percent of our recommendations that it reviewed in 2002–03.**

The Public Accounts Committee also requested departments to submit action plans and progress reports on implementing recommendations made in our reports. For details see page 21.



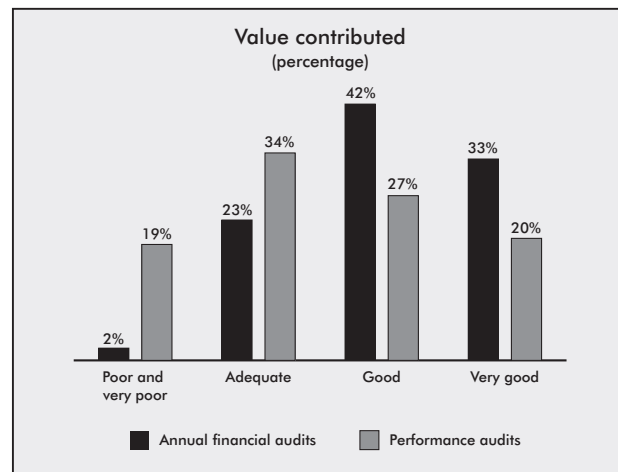
- **Departments and agencies fully implemented 45 percent of our 1999 recommendations.**

This area continues to be a challenge for the Office. In 2002, we modified this performance indicator to better measure how departments are implementing our recommendations. In 2004, we will establish a baseline that will enable us to set a target. For details see page 22.



- **Overall, the majority of organizations we audit are satisfied that our audits add value.**

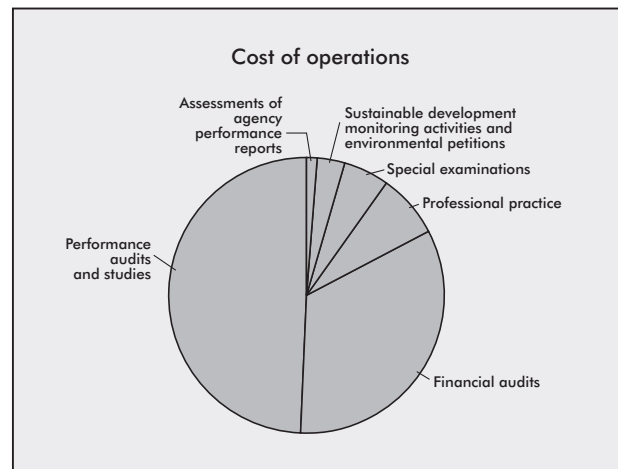
Chief financial officers and audit committee chairs found that 75 percent of our annual financial audits were good or very good at contributing value to the organization. Deputy ministers (or equivalents) found that 47 percent of our performance audits were good or very good at contributing value to their organization. Where organizations have suggested improvements, we are taking corrective action. For details see page 23.



Financial performance

The following highlights our 2003–04 financial performance. For detailed information, see Section IV—Financial Performance on page 33.

- The net cost of operations for the Office was \$79.4 million; the Office used \$71.8 million of the \$74.4 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 employed 558 full-time equivalent (FTE) employees, which represented 96 percent of our budget for 580 FTEs.



- We reported on the results of 32 performance audits; over 100 financial statement audits, including that of the Government of Canada and the three territorial governments; 7 special examinations of Crown corporations; and 3 assessments of agency performance reports.

Section II—Context

The Office of the Auditor General encourages well managed and accountable government for Canadians. Our work is guided by a strategic plan that outlines our vision and values (Exhibit 1).

Exhibit 1 — A strategic plan for the Office of the Auditor General of Canada

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
- 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.
- Providing a respectful work place in which our diverse workforce can strive for excellence and realize their full career potential.



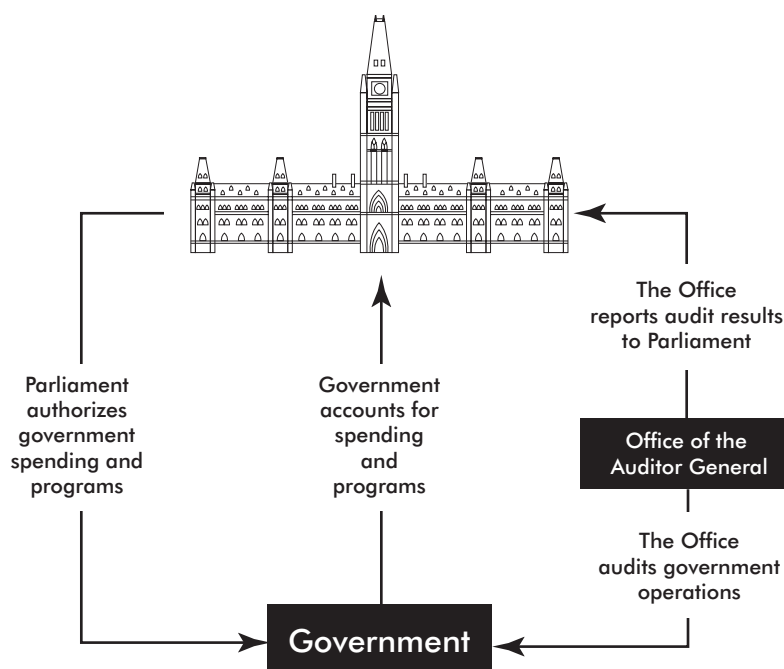
Our values

- 1 Serving the public interest
- 2 Independence and objectivity
- 3 Commitment to excellence
- 4 Respectful workplace
- 5 Trust and integrity
- 6 Leading by example

Who we are: An Officer of Parliament

The Auditor General is an Officer of Parliament. We are independent from the government and report directly to Parliament; our relationship with parliamentarians is key to our effectiveness (Exhibit 2).

Exhibit 2 — The Auditor General's role as an Officer of Parliament



The *Auditor General Act*, the *Financial Administration Act*, and other acts and orders-in-council set out the duties of the Auditor General. These duties relate to legislative auditing and monitoring of federal departments and agencies, Crown corporations, territorial governments, and other entities that include international organizations.

Objectivity and independence. Maintaining our objectivity and independence from the organizations we audit is critical. Our independence is assured by a broad legislative mandate, freedom from certain government controls, and a 10-year mandate for the Auditor General.

Additional mechanisms are in place to ensure the independence of the Office:

- The Auditor General's 10-year term is not renewable.
- The reports of the Auditor General are presented directly to Parliament.
- The Auditor General is accountable to Parliament and not to the government of the day.
- The Auditor General can request from federal and territorial organizations information that is needed to carry out the Office's mandate.
- Funded by Parliament, the Office does not receive fees for its services from the departments, agencies, and Crown corporations that it audits.

- As a separate employer, the Office appoints its employees, has its own classification standards, and performs human resource functions including determining the terms and conditions of employment.
- Auditors ensure their independence by following the Canadian Institute of Chartered Accountants' standards and the Office's audit standards and practices and Code of Values, Ethics, and Professional Conduct.

The challenge we face with funding. The Office is funded by Parliament, however, we negotiate the level of funding with the Treasury Board Secretariat. The existing process is not sufficiently independent to ensure that our budget is appropriate to meet Parliament's expectations. This has not yet caused a problem, and we are satisfied that the Office will be adequately resourced in the coming year.

The level of funding should be determined in an objective manner. We believe this process should be corrected, so there is no possibility of influence, real or perceived. We are discussing alternative mechanisms with the Secretariat for determining the Office's future funding requirements. However, these discussions have now been underway for three years and we are concerned with the lack of progress.

What we do: Legislative auditing

We assist Parliament in its work related to the authorization and oversight of government spending and operations. We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians. With our legislative auditing product lines, the Auditor General answers many important questions (Exhibit 3).

Supporting and promoting accountability is an important part of our work with Parliament. Our 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.

Who we serve

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 Office. The Standing Committee on Environment and Sustainable Development, the Standing Senate Committee on National Finance, and other parliamentary committees also rely on our work. 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.

In addition, we assist the boards of directors of Crown corporations in fulfilling their governance responsibilities through our annual financial statement audits and special examinations. 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.

Exhibit 3 — The Auditor General answers many important questions

Product lines of legislative auditing ¹	Questions
Performance audits and studies of departments and agencies, including audits on the environment and sustainable development ²	Are programs well managed? Are they running economically and efficiently, and with due regard to their environmental effects? Does the government have the means to measure their effectiveness?
Audit of the summary financial statements of the Government of Canada ³	Is the government presenting fairly its overall financial situation?
Financial audits of Crown corporations, ⁴ territorial governments ⁵ , and other organizations	Is their financial information presented fairly, and are they complying with their legislative authorities?
Special examinations of Crown corporations ⁶	Do their systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?
Sustainable development monitoring activities and environmental petitions ⁷	Are departments meeting the objectives and implementing the plans set out in their sustainable development strategies? Are ministers responding as required to environmental petitions?
Assessments of agency performance reports ⁸	Are the agencies presenting their performance information fairly and in a reliable way?

1 These product lines are explained in more detail in the *Auditor General Act* (sections 5, 6, 7, and 23) and the *Financial Administration Act* (Part X).

2 These audits are published up to four times a year in the reports of the Auditor General of Canada and the Commissioner of the Environment and Sustainable Development.

3 The report and observations of the Auditor General on the summary financial statements of the Government of Canada are published annually in the Public Accounts of Canada, Volume I.

4 These audits are published annually in the statutory reports of these organizations.

5 These audits are published annually in the public accounts of the territorial governments of the Yukon and Northwest Territories, and Nunavut.

6 Special examinations are a form of performance audit and are required for most Crown corporations, at least once every five years. Their reports are addressed to the board of directors of the corporations. The 2004 federal Budget proposes that special examinations, conducted by the Auditor General, be tabled in Parliament and posted on the Web site of each Crown corporation.

7 Environmental petitions are available on the Office of the Auditor General's Web site.

8 These assessments are submitted annually to the Canadian Food Inspection Agency, Parks Canada, and the Canada Customs and Revenue Agency and published annually in the statutory reports of these organizations.

Our governance structure

The Office's Executive Committee 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 Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, and ten assistant auditors general.

The Auditor General receives advice from a number of external committees:

- The Audit Committee provides an oversight role on the quality of audit practices and internal controls. The Committee is made up of senior Office auditors and is chaired by a retired senior executive from the private sector.

- The Panel of Senior Advisors is composed of representatives from business, the accounting profession, the academic community, and other parties. It provides strategic advice on the work of the Office.
- The Panel of Advisors on First Nations' Issues includes Aboriginal and non-Aboriginal leaders. It advises the Auditor General on matters affecting Canada's First Nations peoples.
- The Independent Advisory Committee, made up of senior accountants and financial consultants, advises the Auditor General on the 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 Office.

The Commissioner of the Environment and Sustainable Development receives advice from an external committee:

- The Panel of Environmental Advisors, made up of representatives from environmental groups, industry, former public servants, and the academic community, advises the Commissioner on her work and on environmental and sustainable development matters.

The Office also establishes audit advisory committees for all performance audits and studies and for most special examinations. Members are drawn from inside and outside the Office and are selected on the basis of their skills, insights, relevant knowledge, and experience. These committees provide advice to the audit teams on the objectives and general approach of the audit and on the significant matters and findings that are to be reported.

Further information on the Office's organization is available on our Web site under About Us.

How we maintain our accountability

Who audits the Auditor General? Each year, an external auditor appointed by the Treasury Board Secretariat audits the Office's financial statements. Our financial statements are prepared on a full accrual basis of accounting in accordance with generally accepted accounting principles. These financial statements are included in this report on page 44. As part of our quality control process, the Office is also subject to peer reviews, practice reviews, and internal audits (see "How we assess our work," on page 12).

Accountability to Parliament. The Auditor General, like government departments, submits annual Estimates documents to Parliament. The Public Accounts Committee calls on the Auditor General to explain the Estimates documents and to discuss our reports on plans and priorities and performance as well as our management practices.

Accountability for sustainable development. Twenty-five federal government departments and agencies are required to prepare sustainable development strategies and to update them at least every three years. The most recent strategies cover 2004–06. While the Office is not required to table a strategy, we do so voluntarily. Our current strategy was tabled in Parliament in February 2004.

How we assess our work

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

Our Strategic Planning and Professional Practices group conducts reviews of the Office’s audit operations and management and administration activities to ensure that they conform to standards and policies and to identify areas for improvement.

The Office’s Audit Committee plays an oversight role for our audit practices and internal controls, and approves plans for internal audits and practice reviews. The committee met six times in 2003–04 during which it

- reviewed the Office’s financial statements, suggested improvements, and recommended their approval to the Auditor General;
- examined the drafts of the *Report on Plans and Priorities* and the *Performance Report*; and
- reviewed all practice review and internal audit findings.

In 2003–04, the Office published the results of its practice reviews, internal audits, and peer review (Exhibit 4). Executive summaries of these reports are available on our Web site.

Exhibit 4 — Practice reviews, internal audits, and peer review conducted in 2003–04	Completed in 2004
Practice Review Report Special Examination Product Line — Round Four	February
Practice Review Report Performance Audit Product Line — Audits Reported in 2003	May
Practice Review Report Annual Audits Completed in Fiscal Year 2003	May
Internal Audit Report — Security at Regional Offices	January
Internal Audit Report — Travel	January
International Peer Review of the Value for Money (performance audit) Practice of the Office of the Auditor General of Canada	February

Practice reviews. We conduct practice reviews of the Office’s product lines, including financial and performance audits and special examinations, by assessing them for quality and compliance with Office policies and professional standards. The practice reviews assure the Auditor General that the Office is carrying out its audit responsibilities and help identify good practices. In 2003–04, we conducted three practice reviews on special examinations, performance audits, and annual financial audits.

Internal audits. We audit the Office’s management and administration practices. The audits assure the Auditor General that the Office is complying with government and Office policies. They provide managers with assessments and recommendations on the activities reviewed. We also prepared a long-term internal audit plan for 2004–05 to 2006–07. The executive summary of this long-term internal audit plan is available on our Web site.

The 2003 international peer review of our performance audit practice. The Auditor General asked the international audit community if they would be interested in participating in a review of the Office's performance audit practice. This was the first time that the legislative audit practice of a national audit office would be assessed by a team of its international peers.

The international peer review assessed the extent to which the Office's performance audit practice reflects recognized standards of professional practice, and is operating effectively to produce independent, objective, and supportable information that Parliament can rely on to examine the government's performance and hold it to account.

The review team reported that the Office's performance audit practice was suitably designed and operating effectively to achieve its objectives.

In March 2004, we presented the international peer review report, together with our action plan to address suggestions for improvement to the Public Accounts Committee. The report and our action plan are available on our Web site.

Review of our financial audit practice. The provincial institutes of chartered accountants review the professional standards of the Office's financial audits, and whether our training of chartered accounting students meets the requirements for certification. In the last five years, the financial audit practices of our regional offices and Ottawa office have been reviewed. The reviews concluded that professional standards were being followed in all cases and that the requirements for certification were being met.

What were our unintended impacts?

We are always watching for any unintended impacts of our work. We try to avoid proposing unnecessary, or excessive controls or systems so that management in the organizations we audit can focus on priority areas. In some cases, government organizations are undergoing significant changes and resource reductions, and implementing our recommendations could require additional resources. Any significant findings we raise can create additional pressures on resources or affect employee morale. As well, reported cases of mismanagement may have a negative effect on public confidence in the government. Finally, organizations may implement excessive controls that go beyond the scope of our recommendations.

We have implemented various techniques, such as conducting surveys of senior management, to provide valuable information for identifying and measuring unintended effects. We are currently exploring ways of using this tool to assess any unintended effects of our audits.

Section III—Reporting on Results

Our strategic outcome and results chain

The Office uses a results chain to describe its long-term result and strategic outcome (we contribute to a well-managed and accountable government for Canadians) and to show how it expects to make a difference for Canadians. The results chain links what we deliver (audits, studies, opinions, information, and advice) to our long-term result. It also describes the various stakeholders and their contributions to improving government operations. We reviewed the results chain in 2003–04 to improve its usefulness and clarity (Exhibit 5).

We have made improvements to our performance measurement and reporting systems in recent years. In the next two years, the Office will strengthen its results chain by identifying its medium-term results for its largest product lines. By March 2005 we will develop indicators, and by March 2006 we will establish a baseline and, where appropriate, set targets.

Performance results

Our strategic plan describes what we do and how we do it.

- We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians.
- We work collaboratively with legislative auditors, federal and territorial governments, and professional organizations.
- We provide a respectful work place in which our diverse workforce can strive for excellence and realize their full career potential.

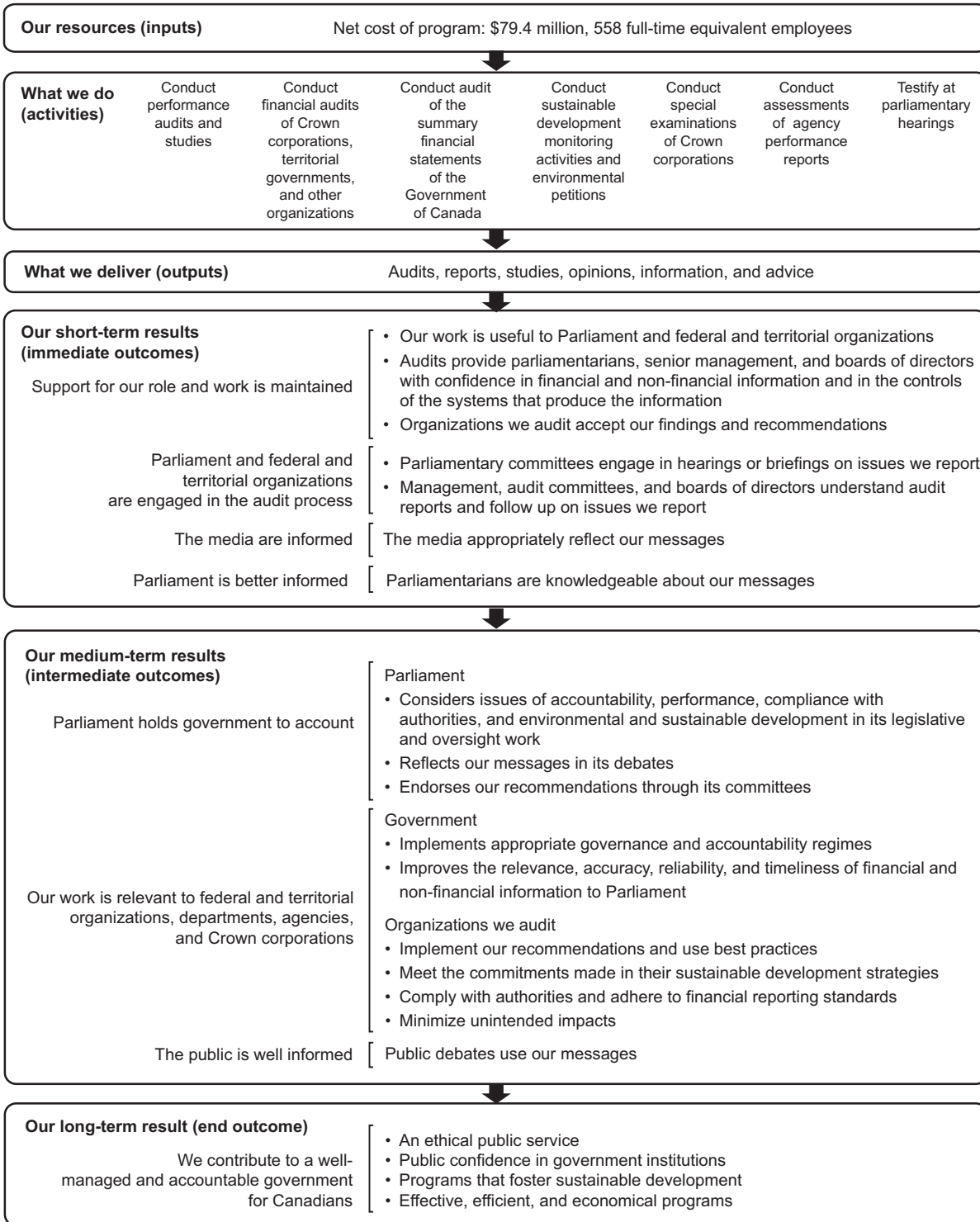
We conduct independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians.

Reporting to Parliament

We assist Parliament in its work related to the authorization and oversight of government spending and operations. Our work covers financial and performance reporting, accountability, and compliance with governing authorities.

We maintain good working relationships with parliamentarians; we ensure that they are aware of our audit findings and that our reports are useful to them. For example, we inform parliamentary committees of audits that are relevant to their mandates, and we attend many hearings to better inform parliamentarians of our audits.

Exhibit 5 — Results chain



Useful to Parliament

In 2002, we surveyed members of Parliament on their perception of our Office, our credibility, our performance, and on issues they would like the Auditor General to address in the coming years. The results highlighted the relevance and usefulness of our work and areas for improvement. For more information see endnote 1 on page 60.

We did not conduct a survey in 2003-04 due to changes in government leadership and the federal election. We intend to survey parliamentarians in the future.

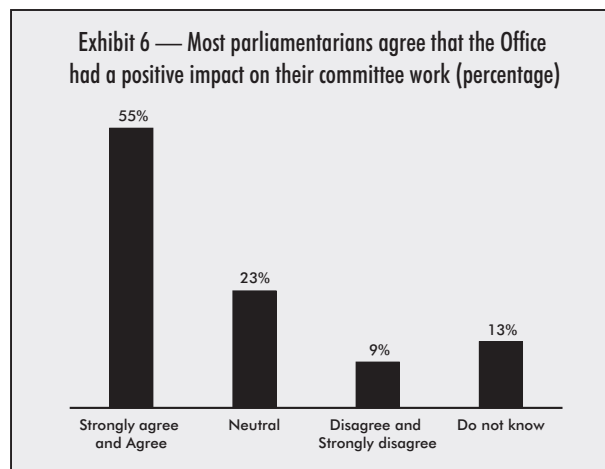
Our short-term result

Our work is useful to Parliament.

What we achieved

- Fifty-five percent of parliamentarians in 2002 consider that the recommendations and findings of the Office had a positive impact on their committee work.
- Ninety-four percent of the Standing Committee on Public Accounts and seventy-four percent of parliamentarians in 2002 agreed that the Auditor General's appearance at committee meetings is helpful.
- One hundred percent of the Standing Committee on Public Accounts indicated that the Office added value to their decisions.

In 2002, 55 percent of parliamentarians agreed that the recommendations and findings of the Office had a positive impact on their overall committee work (Exhibit 6).



Our short-term result

Audits provide parliamentarians with confidence in financial and non-financial information and in the controls of the systems that produce the information.

What we achieved

Seventy-six percent of the Standing Committee on Public Accounts and fifty-four percent of parliamentarians in 2002 indicated that they were knowledgeable about the findings and recommendations of the Office.

Senators and members of Parliament (in particular members of the Standing Committee on Public Accounts) have told us that they want a more thorough follow-up of departments' progress in implementing our recommendations on key issues. As a result, we are no longer reporting on previous recommendations two years after the original audit. In following up on our recommendations, we now focus on issues that are most significant—specifically, recommendations that are systemic, timely, relevant, higher risk, and are of interest to parliamentarians. We are hoping that this new approach to our follow-up work will result in increased value to parliamentarians' oversight role and responsibilities. Since 2002, we have published two status reports which follow-up on our previous recommendations and are available on our Web site under Reports to Parliament.

Engaging Parliament

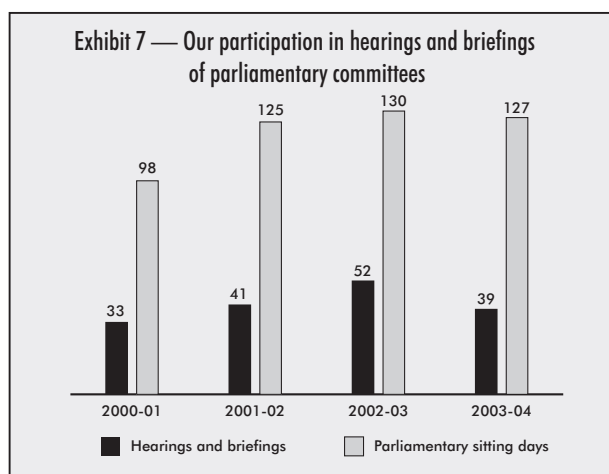
Our short-term results

Parliamentary committees engage in hearings or briefings on issues we report.

What we achieved

- We participated in 39 parliamentary committee hearings and briefings, 22 with the Standing Committee on Public Accounts.
- Parliamentary committees reviewed 45 percent of our 2003-04 performance audits.

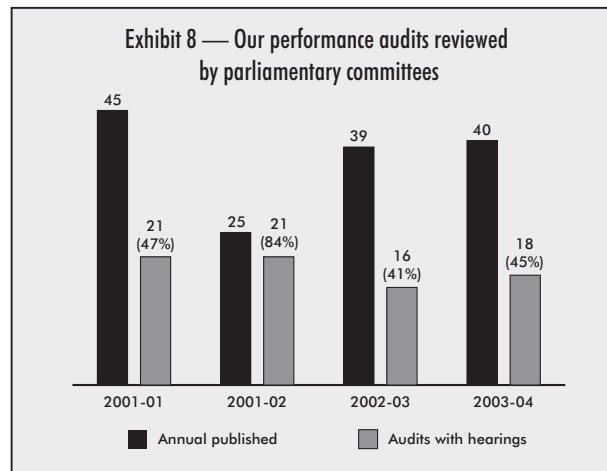
Parliamentarians are interested in our performance reports findings. In 2003–04, the Office participated in 39 parliamentary hearings and briefings. Over half of those hearings and briefings were with the Standing Committee on Public Accounts, while 17 of them were with other standing committees or Senate committees. We participated in fewer hearings in 2003–04 because the Public Accounts Committee spent many weeks reviewing our audit of the Sponsorship Program. As a result, less time was available for our other audit reports to be reviewed by parliamentary committees (Exhibit 7).



We appeared before the Public Accounts Committee to discuss our *2003–04 Report on Plans and Priorities*, the international peer review of our performance audit practice, and to assist members during their review of the Estimates documents. We attended six parliamentary hearings and briefings on environmental issues including five audits by the Commissioner of the Environment and Sustainable

Development. For the first time, parliamentary committees discussed our audits on environmental petitions and sustainable development strategies.

In 2003–04, forty-five percent of our performance audits were reviewed by parliamentary committees (Exhibit 8). To calculate this percentage, we consider all parliamentary hearings held on one audit as one hearing (see endnote 2 on page 60). Compared to 2002–03, committees reviewed two more audits from our 2003–04 reports—a slight increase over the previous year.



Contributing to legislative and oversight work

Our medium-term result

- Parliamentarians consider issues of accountability, performance, compliance with authorities, and environmental and sustainable development in its legislative and oversight work.

What we achieved

- We provided reports and advice that contributed to the legislative and oversight work of Parliament.

Here are five examples from 2003–04 that illustrate how our work contributes to the legislation and oversight work of Parliament.

1. The Office of the Privacy Commissioner, September 2003 Report of the Auditor General

In spring 2003, the Standing Committee on Government Operations and Estimates held hearings on irregularities in the administration of the Office of the Privacy Commissioner. The Committee asked the Auditor General to audit the management practices of the Office of the Privacy Commissioner. Our audit found a major breakdown of controls over financial management, human resources management, contracting, and travel and hospitality expenditures.

Following our report, the Public Accounts Committee held three hearings to better understand how some senior managers failed to discharge their obligations. Consequently, the Office of the Privacy Commissioner and the Treasury Board Secretariat developed detailed action plans to implement corrective measures. In 2004, the Secretariat and the Office of the Privacy Commissioner presented joint reports in Parliament that outlined the progress they had made.

2. The Sponsorship Program, Advertising Activities, Management of Public Opinion Research, November 2003 Report of the Auditor General (chapters 3, 4, and 5)

Our government-wide audit highlighted several significant and serious issues. We found that

- The government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money.
- The Communications Coordination Services Branch of Public Works and Government Services Canada failed to allow suppliers equitable access to government business and obtain best value in selecting advertising agencies. Most agencies were selected in a manner that did not meet the requirements of the government's contracting policy. In some cases, we could find no evidence that a selection process was conducted at all.
- We also found that overall, public opinion research was managed transparently, with roles and responsibilities clearly defined.

The government has called for a commission of inquiry, appointed a special counsel to recover funds, and launched several reviews. The Standing Committee on Public Accounts held several hearings in an effort to obtain answers to some key questions. The government has since made significant changes to the sponsorship, advertising, and public opinion research programs.

3. Managing the Safety and Accessibility of Pesticides, 2003 Report of the Commissioner of the Environment and Sustainable Development (Chapter 1)

We examined the Pest Management Regulatory Agency of Health Canada and found deficiencies in how they evaluate new and old pesticides and in monitoring and compliance. The federal government cannot guarantee that the pesticides used everyday meet the current standards for protecting the health of Canadians and the quality of the environment.

The Standing Committee on Environment and Sustainable Development asked the Agency to provide work plans and an annual status report on key issues such as re-evaluating old pesticides. One committee member stated that the Office enabled the committee to apply “the due diligence that the public expects us to give to something as important as the whole issue of pesticides.” The Standing Committee on Agriculture and Agri-Food also asked the Agency to provide biannual progress reports and asked the Commissioner of the Environment and Sustainable Development to help them review the reports.

4. Modernization of Human Resources Management, April 2000 Report of the Auditor General (Chapter 9); Recruiting for Canada's Future Public Service, December 2001 Report of the Auditor General (chapters 2 and 3)

In February 2003, the government introduced the *Public Service Modernization Act* to update human resource management. The Standing Committee on Government Operations and the Senate National Finance Committee extensively reviewed the legislation. We attended these hearings and noted that the legislation was an improvement over the existing system and would improve human resource management. The Act received Royal Assent in November 2003.

This Act was developed, in part, due to our work in this area and we are committed to reporting to Parliament on the progress made in implementing the legislation.

In April 2000, we published a study on the roles and responsibilities for human resource management in the federal public service. We saw the need to modernize systems and practices. In 2001, the Public Accounts Committee held several hearings and recommended legislative changes and streamlining staffing. The government established a task force to look at modernizing human resources management. In December 2001, we published two chapters on recruitment that outlined principles for a new staffing regime and made recommendations for needed changes to current practices. The Public Accounts Committee held hearings on these chapters and supported our recommendations.

5. Review of the Estimates process

In March 2003 we published *Parliamentary Committee Review of the Estimates Documents*, which provides guidance to committees on reviewing expenditure plans and performance reports. In 2003–04, on four occasions, we helped committees prepare for hearings by discussing how to best review the Estimates. We have received a positive reaction from parliamentarians on the guidance we provide to committees.

Endorsement of our recommendations by Parliament

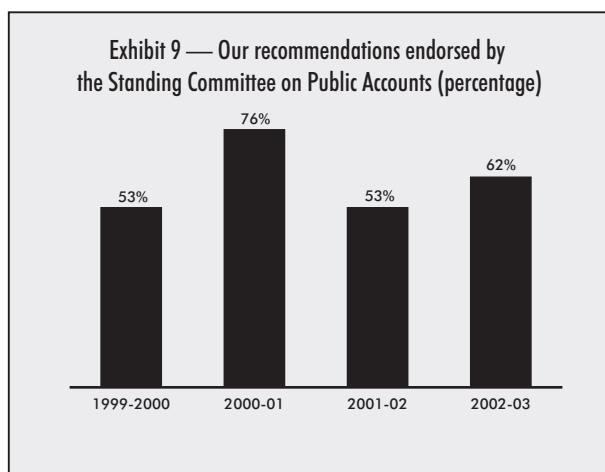
Our medium-term result

Parliament endorses our recommendations through its committees.

What we achieved

In its reports, the Standing Committee on Public Accounts endorsed 62 percent of our recommendations that it reviewed in 2002–03.

In 2002–03, the Public Accounts Committee endorsed 62 percent of our recommendations, a result that is consistent with the previous year. Committee reports from hearings, in many cases, are issued the following fiscal year; therefore, we are reporting on recommendations from our 2002–03 performance audits (Exhibit 9). To determine the percentage, we calculate the number of audit recommendations reviewed by the Public Accounts Committee and those endorsed in its reports (see endnote 3 on page 60).



The Public Accounts Committee often requests departments to submit action plans and progress reports on implementing the recommendations made in our reports. We believe that this also represents a strong endorsement of our work.

How well our recommendations are implemented

Our medium-term result

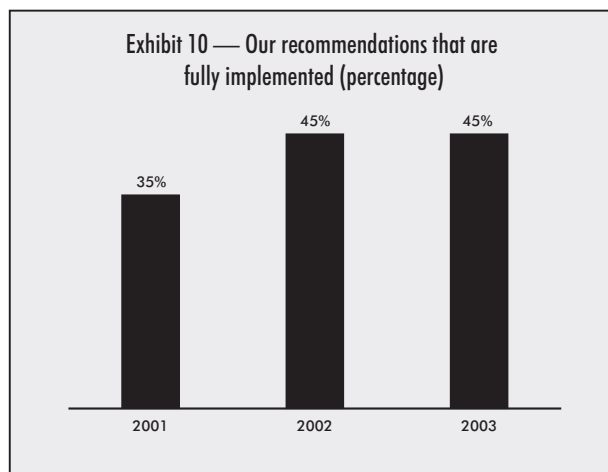
Organizations we audit implement our recommendations.

What we achieved

Departments and agencies fully implemented 45 percent of our 1999 recommendations.

By the end of 2003, 45 percent of our 1999 recommendations were fully implemented and 16 percent had been substantially implemented (Exhibit 10). We measured our impact on government accountability, operations, and services by the percentage of recommendations that have been implemented after a four-year period. In 2002, we modified this indicator to better measure how departments are implementing our recommendations. In 2004, we will establish a baseline that will enable us to set a target (see endnote 4 on page 60).

Departments and agencies are ultimately responsible for taking corrective action and improving management practices. We encourage them to implement our recommendations and we monitor their performance in doing so.



The percentage of recommendations fully implemented in 2003 is identical to that in 2002. The international peer review of our performance audit practice noted that the Office could improve its practices by ensuring that recommendations were more specific and action-oriented. We have an action plan to address this area and are working to increase the percentage of recommendations fully implemented. Our action plan includes a new approach to developing and drafting recommendations. We are also encouraged by a recent survey of the organizations we audit; the majority said that they intend to implement our audit recommendations.

Progress toward sustainable development

Our medium-term result

Organizations we audit meet the commitments made in their sustainable development strategies.

What we achieved

We reported on the extent to which departments are meeting the commitments they made in their sustainable development strategies.

Twenty-five departments and agencies are required to prepare sustainable development strategies and update them every three years. We published *Sustainable Development Strategies—Making a Difference*, which sets out our expectations for the third-round of strategies. The Environment and Sustainable Development Coordinating Committee endorsed the expectations and encouraged all departments to meet them when preparing their strategies. These strategies were tabled in Parliament in February 2004.

In the Commissioner's 2003 Report, Chapter 3, Sustainable Development Strategies: Case Studies, we examined the extent to which four departments were meeting some of the commitments they made in their strategies. The audit found that more leadership and effort is required to support sustainable development in Canada. As part of a parliamentary hearing on this chapter, the Standing Committee on Environment and Sustainable Development questioned Human Resources Development Canada on its progress in implementing its strategy, including researching how the Kyoto Accord will affect the labour market and the promotion of "green" employment in Canada.

Perceptions of our performance from the organizations we audit

Our short-term result

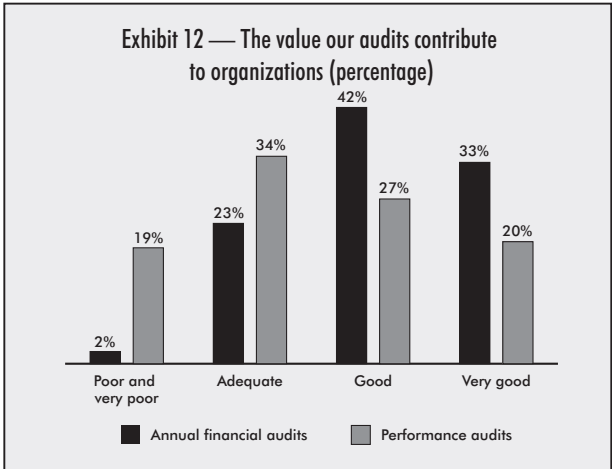
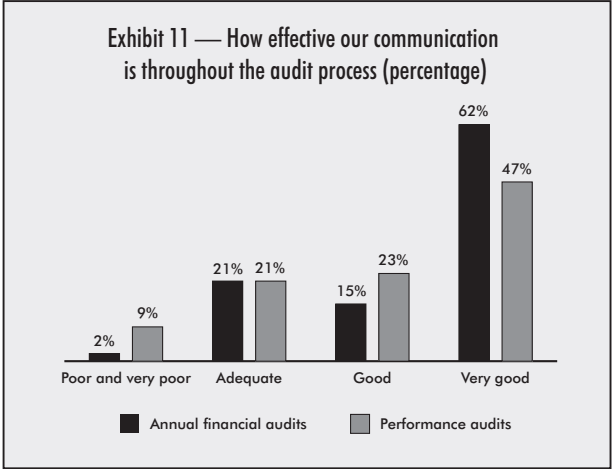
Our work is useful to federal and territorial organizations.

What we achieved

- Seventy-seven percent of chief financial officers and audit committee chairs found that our communication during the annual financial audit process was good or very good.
- Seventy percent of deputy ministers (or equivalents) found that our communication during the performance audit process was good or very good.
- Chief financial officers and audit committee chairs found that 75 percent of our annual financial audits were good or very good at contributing value to the organization.
- Deputy ministers (or equivalents) found that 47 percent of performance audits were good or very good at contributing value to the organization.

In 2003, the annual performance assessment surveys we send to organizations were redesigned and their scope was expanded to apply to all audit products. We will use the results from the 2003 surveys as a baseline measure to track trends in our performance. In addition to quantitative data, the surveys provided qualitative data to help audit teams improve their work (see endnote 5 on page 60).

It is clear from exhibits 11 and 12 that performance audits did not score as well as the annual financial audits. These are baseline measures; we will conduct a survey every two years for financial audits and every year for performance audits. Overall the majority of organizations we audit are satisfied with our performance. Where our organizations have suggested improvements, we are taking corrective action.



We are also continuing to collect data on our performance in conducting special examinations of Crown corporations and in auditing the government’s summary financial statements. This will enable us to measure our performance over time and establish performance targets.

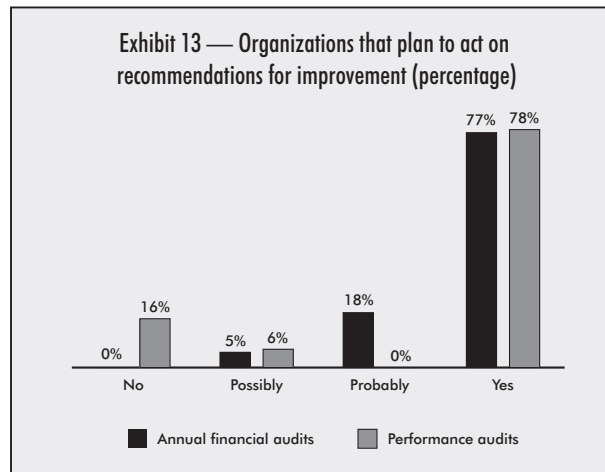
Our short-term result

Organizations we audit accept our findings and recommendations.

What we achieved

Seventy-eight percent of organizations we audit intend to act on our recommendations for improvements.

The majority of organizations we audit plan to act on our recommendations for improvement (Exhibit 13). This was also confirmed in our May 2003 Status Report; the Auditor General concluded that the Office was satisfied with the progress made in four of the six follow-up audits.



Communicating our message to the media and public

Our analysis of coverage in 2003–04 indicates that our messages were well understood by the media, and, with a few exceptions, were reported accurately. Messages contained in the Auditor General’s five reports and in the Report of the Commissioner of the Environment and Sustainable Development were communicated to the media clearly and effectively.

Media coverage tends to stimulate interest in our work on the part of Canadians. This was especially apparent after the tabling of the November Report, which generated an unusually large number of inquiries from the public. In 2003–04, the Office received approximately 2,077 inquiries from the public, including over 330 for the Commissioner of the Environment and Sustainable Development, which is significantly higher than previous years.

To better inform Canadians about the role and work of the Office, many staff members, including the Auditor General and the Commissioner of the Environment and Sustainable Development, made presentations across the country. In 2003–04 the Auditor General delivered 29 speeches, the Commissioner gave 16, and the assistant auditors general gave 6. In total, these speeches reached some 8,000 Canadians directly. Speaking engagements provide the Office with an opportunity to strengthen our relationships with our stakeholders and link our specific findings to broad, general themes such as accountability and the management of financial information.

We work collaboratively with legislative auditors, governments, and professional organizations.

Territorial governments

We work collaboratively with territorial governments on a wide range of issues and initiatives to improve accountability and public sector management. In the Yukon, the Northwest Territories, and Nunavut we work with government officials and territorial corporations' managers on issues of mutual concern, improvements to systems and processes, and improvements to public accountability. Our reports to northern legislative assemblies are available on our Web site.

Legislative auditors and professional organizations

Our employees participate in many professional organizations that contribute to the improvement of legislative auditing such as the Canadian Evaluation Society, the Institute of Public Administration of Canada, the Canadian Institute of Chartered Accountants, the CCAF-FCVI Inc., the Financial Management Institute, and the Institute of Internal Auditors. We are also involved with the Panel of External Auditors of the United Nations.

As a member of international organizations, we engage in efforts to strengthen legislative auditing and its institutions around the world. We are also committed to helping our Office strengthen its legislative audit practice through our relations with other audit institutions and international organizations involved in public sector accounting, auditing, and accountability activities. Key players in establishing these international standards include organizations like the International Federation of Accountants and the International Organization of Supreme Audit Institutions (INTOSAI).

INTOSAI. The Office plays an active role in INTOSAI. The Auditor General is the chair of INTOSAI's Working Group on Environmental Auditing (WGEA) and the Commissioner of the Environment and Sustainable Development is the associate chair. Together, they provide leadership to the working group. The working group assists 185 audit institutions to better understand environmental auditing and encourages them to use their audit mandates for environmental protection and sustainable development.

In 2004, the WGEA redesigned its Web site and prepared, in conjunction with the INTOSAI Development Initiative, a training course on environmental auditing. This course was piloted in Asia and Africa. The WGEA also produced two papers, *Auditing Water Issues: Experience of Supreme Audit Institutions* and *Towards Auditing Waste Management*.

The Auditor General also chairs the sub-committee on Supreme Audit Institutions (SAI) independence of INTOSAI's Auditing Standards Committee. Over the last few years, the sub-committee has been developing provisions to illustrate how the eight core principles of SAI independence might be applied. In 2003, the sub-committee surveyed SAIs to measure whether they are able to adhere to the core principles of independence. They also benchmarked guidance from INTOSAI's Code of Ethics and Auditing Standards on independence with the principles on independence from the International Federation of Accountants. In April 2004, the Auditor General presented this work at a United Nations and INTOSAI seminar on SAI independence in Vienna.

Over the past few years, we have assisted the Russian Accounts Chamber, the Supreme Audit Institutions (SAI) of Russia, develop a performance audit capability. We are also participating in a project to strengthen the auditing capacity of francophone countries from the African Organization of Supreme Audit Institutions. We recently adopted a strategic framework and three-year strategy for doing international work.

CCOLA. The Office is a member of the Canadian Council of Legislative Auditors (CCOLA), which comprises the ten provincial legislative auditors; the Auditor General of Canada; and an associate member, the Auditor General of Bermuda. We participate on seven committees and working groups of CCOLA.

With our provincial counterparts, we are planning two collaborative audits in the health sector:

- The first audit looks at the health performance indicator reports that will be published by the federal, provincial, and territorial governments in November 2004.
- The second audit looks at government-sponsored drug benefits programs at the federal level and in seven provinces, which will be reported in the coming year.

We are also working with the auditors general of New Brunswick and British Columbia on an audit on salmon stocks, their habitat, and salmon aquaculture that will be reported in October 2004. All three auditors general will issue separate reports on their findings.

The Fellowship Program

Over the next three years, the Office will work with the CCAF-FCVI Inc. and the Canadian International Development Agency (CIDA) to further improve the Fellowship Program. The CCAF's International Audit Office Assistance Program (Fellowship Program) was established in 1980 to help strengthen performance auditing in national audit offices. Funded by CIDA, the program brings auditors from selected national audit offices to Canada for nine months of training in performance auditing, accountability, good management, and governance. Training is provided by our Office and the Bureau du vérificateur général du Québec. The Program has graduated over 140 fellows from 49 developing countries.

We provide a respectful work place in which our diverse workforce can strive for excellence and realize their full career potential, while operating effectively.

The Office employs professionals

As an organization that audits most government activities, we need employees with post-graduate expertise in many fields—accounting, statistics, economics, engineering, law, social and environmental sciences, public administration, human resources, and information technology. These employees represent 70 percent of staff located in offices in Ottawa, Vancouver, Edmonton, Montréal, and Halifax. In addition, our audit support staff specialize in information technology, human resources, knowledge management, communications, finance, and administration. One of the highest risks for the Office is not having enough employees with the required competencies to carry out our mandate.

Employee satisfaction

Increasing employee satisfaction by improving the workplace and increasing delegation to all employees is a priority for the Office. In 2003–04 our turnover rate for audit professionals was 10 percent, as compared to 15 percent in 2002–03 and 17 percent in 2001–02. In 2004, we conducted a survey to measure how we were doing. We found the following:

- Our employees have a very high level of employee satisfaction. Staff satisfaction is based on the Office's ability to provide meaningful work and job challenge, tangible rewards, and good feedback to employees.
- Delegation has improved to all employees at all levels of the organization.
- Seventy percent of staff stated that the Office is one of the best organizations to work.
- Seventy percent of staff felt that the Office provided them with opportunities to learn new things.
- Eighty-eight percent of staff are proud to work for the Office.
- Promotional opportunities continue to be a concern. While progress has been made, we are continuing to explore ways to address this issue.

The survey results will be analyzed by an employee committee during the summer of 2004. (See endnote 6 on page 60).

Employment equity

In 2003–04, the Office revised its Code of Values, Ethics, and Professional Conduct which provides guidance for conflict of interest matters, post employment measures, and resolving disputes. Our code follows Treasury Board's Values and Ethics Code for the Public Service.

The Canadian Human Rights Commission audited our Office this year and found us in compliance with all 12 areas that they measure. In addition, we launched our policies on employment equity and workplace accommodation.

Official languages

For internal use and, keeping in mind our commitments, we are monitoring the second language proficiency of our management categories. Forty-two percent of our assistant auditors general and principals have met or exceeded the language requirements we established recently with our Official Languages Policy. Sixty percent of our directors have met or exceeded the language requirements (see endnote 7 on page 60).

We spent approximately \$450,000 on language training in 2003–04 as compared to \$275,000 in 2002–03. These expenditures included immersion language training for management, evening classes for staff, in-house teachers on contract, language training software, and newspapers. These expenditures do not include the salary costs of staff attending training.

Our goal is to have all of our assistant auditors general and principals and 70 percent of our directors meet or exceed our language requirements by March 2007.

Operating effectively

In 2003–04 we improved the way we allocate and reallocate our resources. This has resulted in better planned and managed audits, and improved the effectiveness and impact of our work. However, we still have more to do in this area.

Knowledge management. The Office continues to make progress in initiatives that enhance knowledge management. For example, we expect that our staff can access the knowledge and tools they need to do their work, as quickly as possible. Our Intranet has become a tool of preference that delivers methodology, research resources and tools, and information about the organizations we audit.

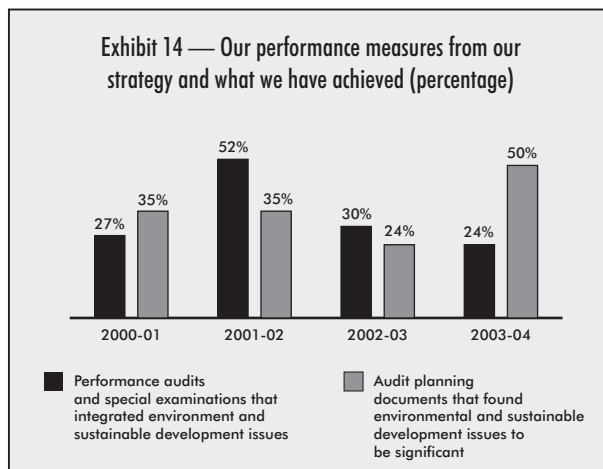
Our Knowledge Centre (library and records) supports the Office's research needs. It responds to over 3,000 research requests and manages over 19,000 books, journals, and electronic resources. The centre has started handling and archiving electronic records.

In 2003, the Knowledge Management Group assumed responsibility for implementing the Management of Government Information (MGI) Policy and managing the content of our Web and Intranet sites. We have redesigned our Web site to incorporate the government's common look and feel standards, and will phase in the MGI policy over a three-year period.

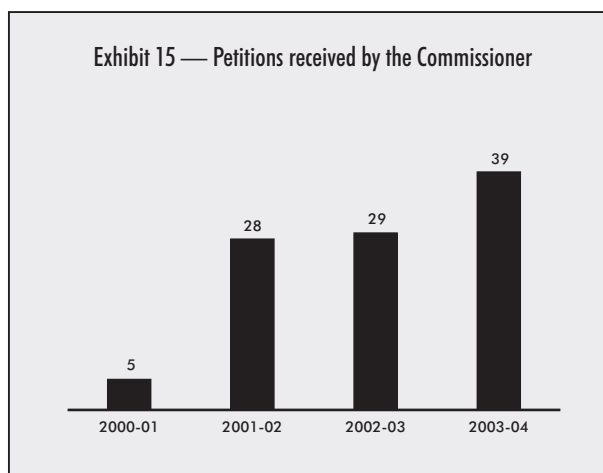
Several government departments, legislative audit offices, and professional organizations are interested in our knowledge management work, and we have shared our experiences with presentations.

Sustainable development strategy. Since 1997, the Office has voluntarily produced a sustainable development strategy. Our 2004–06 strategy ensures that the environmental consequences of the federal government's activities are considered as we plan, conduct, and report on our audit work. While the focus of our strategy has not changed, we plan to provide our auditors with better tools to do their work.

Exhibit 14 lists the performance measures from our strategy and what we have achieved. The two measures are not directly linked; one looks at audits reported in one fiscal year and the other looks at planning documents. In our 2004–06 strategy, we use a more structured approach to considering environmental risks and have modified our indicators and measures accordingly. Further information on our strategy can be found on our Web site.



Coordinating the environmental petitions process. In 2003–04, the Commissioner received 39 environmental petitions (Exhibit 15). The petitions process allows Canadians to voice their concerns about environmental issues to federal ministers and departments, and to obtain a response. The issues covered by petitions expanded to include endangered species, contaminated federal land and harbours (including former military training sites), environment and trade, the effects of genetically-engineered crops on soil, radioactive waste, invasive species, nuclear liability, and the transboundary movement of hazardous waste.



We audited four departmental petition responses to see whether departments were meeting the commitments made to petitioners. Our audit also raised broader issues for parliamentarians to consider. The issue of Trichloroethylene Regulations and water quality guidelines was the first time that a petition was discussed in a parliamentary hearing. During the Standing Committee on the Environment and Sustainable Development hearing, the Minister of Health was asked to respond to reasons for extensive delays in revising drinking water guidelines that involve toxic substances such as trichloroethylene. The Standing Senate Committee on Fisheries and Oceans, in its November 2003 Interim Report, described how environmental and fish habitat concerns can be brought to the fore by the environmental petitions process. It also noted that Fisheries and Oceans Canada continues to be one of the most petitioned departments.

Comptrollership. As part of our ongoing commitment to the government's comptrollership initiative, we conducted a comptrollership capacity assessment in 2003–04. The results of the capacity assessment and action plan are available on our Web site.

This assessment helped us identify areas where we can improve our comptrollership and management practices. The capacity assessment confirmed that the Office

- has a culture that supports effective financial management and control;
- over time, has developed a robust quality management regime; and
- encourages continual improvement and external review of its practices and processes.

The Office has developed a three-year action plan to address opportunities for improvements identified in the assessment. In 2003 the Treasury Board Secretariat introduced the Management Accountability Framework. The Framework is intended to bring together the principal elements of modern comptrollership, human resources modernization, service improvement, and government on-line. As we adapt our management systems and practices, we will take the framework into consideration.

Risk management. As part of our comptrollership initiative, we are integrating effective risk management into the Office's planning process. Numerous elements of effective risk management are in place; however, these elements need to be managed in a systematic and comprehensive manner.

The Office is improving its integrated risk management practices by aligning existing systems and practices for identifying, assessing, and reporting risks. This year we reviewed our corporate risk profile, formalized a framework, approved a risk management policy, and assessed identified risks. By March 2005, we will have established risk tolerances and implemented communication, training, and reporting plans.

Section IV—Financial Performance

Parliamentary appropriations used

In 2003–04, the Office used \$71.8 million of the \$74.4 million in parliamentary appropriations approved. The \$74.4 million comprised of \$66.5 million in Main Estimates and a further \$7.9 million in Supplementary Estimates and adjustments and transfers. Of the \$7.9 million:

- \$3.5 million was for work resulting from changes made to our statutory audit responsibilities, financial audits, travel, and communication costs directly related to our audits and administrative costs.
- \$0.5 million was for the space renewal project of our Ottawa office.
- \$3.9 million in Supplementary Estimates, adjustments, and transfers were more routine in nature, including carry-forward funding and salary adjustments.

The Office lapsed \$2.6 million in 2003–04. We received new funding half-way through the year and were not able to staff new positions as quickly as we would have liked. As a result, we had to delay planned work on performance audits; assessments of controls in government as part of our audit of the financial statements of the Government of Canada; and investing in our training and audit methodology.

Like other government departments and agencies, subject to parliamentary approval, the Office may carry forward up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year. The actual carry forward amount is based on lapsed funds and parental and severance benefits incurred in the year. For 2003–04, the Office has requested that it be allowed to carry forward the maximum carry forward amount—\$2.9 million.

Full-time equivalents used

The Office used 558 full-time equivalent (FTE) employees in 2003–04, which represented 96 percent of our budget for 580 FTEs. This is a decrease in FTEs of 7 from last year. In 2002–03, we used 565 FTEs, representing 99 percent of our budget for 570 FTEs. The increase in budgeted FTEs is a result of new funding received in 2003–04 to meet core operational requirements.

As at 31 March 2004, the Office had 586 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 2003–04, the net cost of operations for the Office was \$79.4 million, as reported in our audited financial statements on page 47. This is an increase of \$1.1 million from 2002–03, largely due to increased costs for employee salary and benefits of about \$2.3 million, offset by savings due to seven fewer FTEs and lower overtime.

The largest increase in costs was for the annual financial audits of Crown corporations, territorial governments, and other organizations (\$1.8 million). The costs of performance audits had the second largest increase (\$1.2 million), followed by special examinations of Crown corporations (\$0.5 million).

Our professional practice costs (\$1.4 million) had the largest decrease, followed by the audit of the summary financial statements of the Government of Canada (\$1.3 million).

Also of importance is the comparison of planned spending to actual costs. The preparation of our *2003–04 Report on Plans and Priorities* was based on planned spending of \$74.3 million. After preparing the report, we received parliamentary approval for additional spending and updated our budget to reflect planned spending of \$80.0 million. The revised planned spending is included in our *2004–05 Report on Plans and Priorities*. Budget variances provided in this section are based on revised planned spending.

The Office charges 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.

The 2003–04 international peer review of our performance audit practice recommended that we review the cost of individual audits with more analyses of the comparative costs of audits and possibly the cost elements of individual audits to determine whether the resources allocated to them reflect the needs of the audit. By March 2005, we will refine our guidelines used to plan and monitor performance audits to address the level of effort normally associated with each stage of the audits, communicate these refinements, and refine our approval and monitoring processes. These refinements, combined with other planned work supporting our strategic initiative on operating more effectively, should lead to reduced costs of individual audits and professional practice projects and maintain the quality of our work.

A cost and budget variance analysis for each product line of legislative auditing follows. The actual costs are those reported in our financial statements on page 47. The costs of individual audits completed during 2003–04 and the Office’s audit effort by entity are published in tables 10 and 11. These two tables are available on our Web site.

Performance audits and studies

Budget	2003–04	\$42.6 million
Actual costs	2003–04	\$39.6 million
Actual costs	2002–03	\$38.4 million
Budget variance—decrease		\$ 3.0 million (7 percent)
Cost variance—increase		\$ 1.2 million (3 percent)

The costs of the performance audits and studies increased due to higher salary and overhead costs, offset by reduced employee hours directly charged to these audits. The budget variance is a result of lower than planned use of employee hours, due in part to an inability to staff positions that were funded mid-fiscal year, and of the additional demands placed on us by the financial audit practice.

Most of our performance audits take place over two years, requiring us to manage budgets that cross fiscal years. In 2003–04, we published:

- 26 chapters at an average cost of \$1.1 million each, compared to 21 chapters in 2002–03 at an average cost of \$1 million.
- 6 performance audit status reports at an average cost of \$600,000 each, compared to 5 status reports in 2002–03 at an average cost of \$500,000.

Budgets are established for planned hours and planned costs of work. We manage costs at an office-wide level and at an individual audit level. The hours used on individual audits have the most significant impact on actual costs.

At the end of the planning phase of an audit, we establish a budget after seeking advice from an advisory committee on the objectives of the audit, the general approach to gather evidence, and the significant matters and issues that we plan to report. Actual time required to do an audit can exceed budget for a number of reasons. For example, during the examination phase, we may decide to expand the scope of planned audit work or audit procedures may take more time than planned. Additional hours may also be needed to discuss a draft report and obtain comments from the organization or organizations we audit.

Employee turnover in a portion of our audits is inevitable and we try to minimize its impact by using a common performance audit methodology. The quality of our audit products and professional standards also require our audit teams to have collective knowledge of the subject matter necessary to fulfill the requirements of the audit. Cost increases due to employee turnover are largely attributable to the learning time required for new employees.

Increased costs can also result from external factors affecting the operations of the organizations we audit.

Annual financial audits of Crown corporations, territorial governments, and other organizations

	2003–04	2002–03
Budget	\$19.1 million	\$18.5 million
Actual costs		
Crown Corporations	8.2 million	8.3 million
Other corporations and organizations	7.3	6.3
Territorial organizations	4.9	4.9
International organizations	2.0	1.1
Total actual costs	\$22.4 million	\$20.6 million
Budget variance—increase	3.3 million (17 percent)	
Cost variance—increase	1.8 million (9 percent)	

The costs of annual financial audits of Crown corporations, territorial governments, and other organizations increased due to the Advancing Audit Practices Project, new audit work for the Canada Customs and Revenue Agency, audit work for international organizations, new professional standards,

and unforeseen audit issues. Cost increases due to increased salary and overhead costs also contributed to the budget variance.

Advancing Audit Practices Project. In 2003–04, the Office completed the implementation of new audit tools and a new methodology for virtually all our annual audits of Crown corporations and other entities. The new audit methodology places greater emphasis on a risk-based approach designed to focus audit procedures on matters of higher risk and significance. The methodology also encourages auditors to place greater reliance on internal controls in the systems and practices used by an organization. The implementation of this methodology should contribute to a more efficient and effective audit process. In many cases, the actual hours required to assess controls has exceeded budgets for those entities in which the work has been carried out and has contributed to increased time spent on our financial audits. As part of the assessment of these controls, we identify weaknesses in controls and bring them to the attention of management with recommendations for improvements. As these improvements are implemented, we continue to anticipate that we will be able to place more reliance on controls.

We began implementing this new methodology three years ago and set a target to reduce the hours for these audits by 15 percent by the end of 2004–05. We are not progressing as quickly as was expected. However, the Office remains fully committed to achieving our objectives of reducing audit work in areas of low risk and adopting more efficient audit processes. This must be done in the context of professional standards. In the past few years, we have seen an increase in the number and complexity of professional standards which have required us to expand and/or introduce other audit procedures.

Canada Customs and Revenue Agency. The increase in the cost of the financial audits of other corporations and organizations is largely attributable to our audit of the financial statements of the Agency. In the 2003 Budget, the government stated that it would implement its commitment to present its financial statements on a full accrual accounting basis, including the accrual of tax revenues, beginning in 2002–03. In addition, the government decided to provide the 31 March 2002 comparative figures on an accrual basis. This required us to carry out additional audit work at the Agency in 2003–04.

International organizations. The Office is responsible for the audits of two international organizations—the International Civil Aviation Organization (ICAO) and the United Nations Educational Scientific and Cultural Organization (UNESCO). The audits are done on a cost recovery basis and we balance our level of effort on the financial audits with performance audit work that we do for these organizations. In 2003–04, the cost of the financial audits of ICAO and UNESCO increased largely due to the cyclical nature of the UNESCO audit (it is a biennial audit), time needed to address audit issues, and the implementation of new audit methodology and tools that should lead to more efficient audits in the future.

New professional standards. Over the past year, a number of new accounting and auditing standards were issued. These new standards required increased reporting and disclosure on the part of the entities we audit and gave us additional responsibilities as auditors. Many of these new requirements have been introduced in response to concerns about corporate reporting and a series of corporate failures in the United States. New accounting standards that impacted our work were accounting for financial instruments, derivatives, and guarantees. Our responsibility as auditor increased in those complex areas and others, such as with other public documents that include financial statements that we audit. Each major change in a professional standard must be reflected in our audit approach.

Audit of the summary financial statements of the Government of Canada

Budget	2003–04	\$5.1 million
Actual costs	2003–04	\$4.4 million
Actual costs	2002–03	\$5.7 million
Budget variance—decrease		\$0.7 million (14 percent)
Cost variance—decrease		\$1.3 million (23 percent)

Reduced hours spent on the financial audit of the summary financial statements of the Government of Canada outweighed increased salary and overhead costs, resulting in an overall decrease of \$1.3 million. The 2003–04 actual costs were more in line with the 2001–02 costs—two years ago—of \$4.6 million. The 2002–03 costs were unusually high due to the implementation of the Financial Information Strategy (FIS), which required departments and agencies to implement new accounting policies for inventory, capital assets, environmental liabilities, and in other areas. This required us to do more work in 2002–03 including the examination of over \$40 billion newly recorded assets and \$40 billion in newly recorded liabilities.

We also reduced our costs in 2003–04 by adopting a new approach for auditing selected departments. We adopted a rotational audit strategy whereby we limit our work on selected departments to planning and detailed audit work in high risk areas—with more extensive audit work being undertaken on a three-year rotational basis.

We would have liked to have done more work on the assessment of financial controls in departmental accounting and management information systems that were implemented as part of FIS. Some of this work was delayed due to a lack of resources and will be done in 2004–05.

Sustainable development monitoring activities and environmental petitions

Budget	2003–04	\$3.1 million
Actual costs	2003–04	\$2.6 million
Actual costs	2002–03	\$2.7 million
Budget variance—decrease		\$0.5 million (16 percent)
Cost variance—decrease		\$0.1 million (4 percent)

Spending on sustainable development monitoring activities and environmental petitions is composed of the costs of our audits of sustainable development strategies and the costs of co-ordinating the petitions process, monitoring responses, and auditing actions taken by departments to fulfill commitments made in petition responses. Our petitions process work is reported each year in the Report of the Commissioner of the Environment and Sustainable Development.

In 2003–04, the number of petitions received increased from 29 to 39 and we improved our procedures to better ensure that we fully address petitioners' questions. This resulted in increased time spent on these areas compared to 2002–03, which was offset by fewer hours spent producing the chapters on petitions and sustainable development strategies.

Special examinations of Crown corporations

Budget	2003–04	\$4.2 million
Actual costs	2003–04	\$4.3 million
Actual costs	2002–03	\$3.8 million
Budget variance—increase		\$0.1 million (2 percent)
Cost variance—increase		\$0.5 million (13 percent)

Crown corporations are required to initiate a special examination of their organizations at least once every five years. We perform about 45 special examinations over five years. Costs vary depending on the number of examinations under way in a year and the nature, size and complexity, and risk of the corporation being examined. In 2003–04, we worked on 17 special examinations, compared to 12 in 2002–03. This planned workload increase, combined with increased salary and overhead costs, led to the cost increase for 2003–04 compared to the previous year.

We completed seven special examinations in 2003–04 compared to five in 2002–03. Special examinations completed in 2003–04 are reported in table 10. This table is available on our Web site.

Assessments of agency performance reports

Budget	2003–04	\$1.1 million
Actual costs	2003–04	\$1.0 million
Actual costs	2002–03	\$0.9 million
Budget variance—decrease		\$0.1 million (9 percent)
Cost variance—increase		\$0.1 million (11 percent)

Three government agencies—the Canadian Food Inspection Agency, the Canada Customs and Revenue Agency, and Parks Canada Agency—are required to produce annual reports that include information on their performance. The Office is required under legislation to assess the fairness and reliability of that performance information. The costs of this product line increased due to increased salary costs and overhead costs and the use of more senior staff to do this work.

Professional practice

Budget	2003–04	\$5.8 million
Actual costs	2003–04	\$6.0 million
Actual costs	2002–03	\$7.4 million
Budget variance—increase		\$0.2 million (3 percent)
Cost variance—decrease		\$1.4 million (19 percent)

In 2003–04, our costs in this area decreased by \$1.4 million, compared to 2002–03. Note 8 of the audited financial statements (page 55) provides a breakdown of expenses by type for 2003–04 with comparative figures for 2002–03.

The decreased spending in this area is mainly related to methodology and knowledge management. In 2002–03, we completed the Advancing Audit Practices Project to implement new tools and methodology for our financial audits. We also had a modest reduction in our investment in methodology projects to support our performance audit and special examination audit practices. This was due to the deferral of methodology projects due to lack of resources.

The cost of international activities increased due to a planned increase in our work to support commitments made in our role as Chair and Secretariat of the International Organization of Supreme Audit Institutions (INTOSAI) Working Group on Environmental Auditing.

Space renewal

In working with Public Works and Government Services Canada, we completed the space renewal project for our employees at our Ottawa office. Renovations began in January 2002. As planned, we spent a further \$2 million in 2003–04 on furniture and equipment bringing total actual costs to \$4.2 million. Accordingly, over the life cycle of the space renewal project, we exceeded planned costs for furniture and equipment by \$0.7 million. Increased costs were 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 cost 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)

Financial Requirements by Authority		2003–04			
Vote		Total Main Estimates	Total planned spending	Total authorities	Total actual spending
Legislative Auditing					
20	Operating expenditures	57.8	57.8	66.2	63.6
20	Grants and contributions	0.4	0.4	0.4	0.4
(S)	Contributions to employee benefit plans	8.3	8.3	7.8	7.8
	Total	66.5	66.5	74.4	71.8

Total authorities of \$74.4 million include \$66.5 million in Main Estimates and \$7.9 million in Supplementary Estimates, adjustments, and transfers.

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

2003–04				
Legislative Auditing	Total Main Estimates	Total planned spending	Total authorities	Total actual spending
Full-time equivalents	–	560	580	558
Operating expenses	66.1	66.1	74.0	71.4
Grants and contributions	0.4	0.4	0.4	0.4
Total gross expenditures	66.5	66.5	74.4	71.8
Non-respendable revenues	(0.8)	(0.8)	(0.8)	(0.9)
Cost of services provided by other departments	8.6	8.6	8.6	8.8
Net cost of the program ¹	74.3	74.3	82.2	79.7

¹ The net cost of operations reported in our audited financial statements, prepared in accordance with generally accepted accounting principles (GAAP), is \$79.4 million or \$0.3 million less than the total actual spending reported above. Accounting for capital assets and employee benefit makes up the difference.

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

2003–04						
	Actual 2001–02	Actual 2002–03	Total Main Estimates	Total planned spending	Total authorities	Total actual spending
Legislative auditing	62.5	71.7	66.5	66.5	74.4	71.8

Table 4 Revenues: Respendable and non-respendable (\$ millions)

2003–04					
	Actual 2001–02	Actual 2002–03	Planned revenues	Total authorities	Actual
Legislative auditing					
Non-respendable revenues	0.9	1.3	0.8	–	0.9

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-respendable revenue.

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

2003–04						
	Actual 2001–02	Actual 2002–03	Main Estimates	Total planned spending	Total authorities	Actual
Legislative auditing						
Contribution	0.4	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 the CCAF-FCVI Inc. is to provide exemplary leadership, and build 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)

List of contingent liabilities	Amount of contingent liability		
	31 March 2002	31 March 2003	Current as of 31 March 2004
Claims, pending, and threatened litigation	–	–	–
Litigations	5.0	5.3	5.4
Total	5.0	5.3	5.4

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 \$5.41 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 2003. The Auditor General's power to enter into contracts for professional services is subject to subsection 15(2) of the *Auditor General Act* and not the Government Contracts Regulations. The Auditor General's policy on contracting for professional services requires that contracts for estimated professional fees of \$25,000 or more be awarded through competition, unless they meet one of the three criteria for exemption: 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 2003, 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 \$42,000 on a non-competitive basis for a review of the Office's strategic governance to a contractor who was uniquely qualified to do the work.

	Original contracts for less than \$25,000 ¹			Original contracts for \$25,000 or more ¹		
	(\$ thousands)	Number	Percentage	(\$ thousands)	Number	Percentage
Competitive contracts	0	0	0	693.0	16	94.1
Non-competitive contracts	3,443.6	425	100.0	42.0	1	5.9
Total	3,443.6	425	100.0	735.0	17	100.0

¹Fees only

Table 8 Compensation and benefits

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

Position	FTEs ¹	Salary (\$)	Bilingual bonus (\$)	Performance pay (\$)	Automobile ² (\$)	Club membership (\$)	Total (\$)
Auditor General	1	257,800 ³			3,792	551	262,143
Deputy auditor general	0.1	177,800–212,830		0–14,000			177,800–226,830
Assistant auditors general and Commissioner of the Environment and Sustainable Development	11	126,430–167,295		0–14,000		551 ⁴	126,430–181,846
Senior principals	4	100,740–145,950		0–11,250			100,740–157,200
Principals	58	100,740–129,930		0–11,250			100,740–141,180
Directors	99	75,060–104,250		0–9,000			75,060–113,250
Auditors	208.9	30,750–76,000	800	0–3,000			30,750–79,800
Audit service officers	63	46,125–76,875	800				46,125–77,675
Audit service specialists	113	28,894–56,795	800				28,894–57,595
	558						

¹ Full-time equivalents (FTEs) utilized in the fiscal year 2003–04.

² Taxable benefit for the personal use of an automobile for the 2003 calendar year.

³ 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.

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

Table 9 Travel and hospitality expenses (\$)

	Domestic travel	International travel	Hospitality expenses
Sheila Fraser, Auditor General of Canada	13,012	17,879	3,762
Johanne G��linas, Commissioner of the Environment and Sustainable Development	4,419	46,673	16,911

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, and other travel expenses (e.g. incidentals and airport improvement taxes).

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 2003–04, meetings were held in Poland and Peru.

Schedules of the travel and hospitality expenses for Sheila Fraser and Johanne G  linas are available on our Web site under About Us.

Financial Statements



Office of the Auditor General of Canada
Bureau du vérificateur général 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 that 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 *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 are safeguarded from loss or unauthorized use, operations are in compliance with governing authorities, and financial information is reliable. These internal control systems are periodically tested and evaluated by the internal auditors, and management takes 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 control 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 disclosures 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. The Audit Committee also meets independently with the Office's 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
28 June 2004

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 2004 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 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

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

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

Ottawa, Canada
28 June 2004

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

	2004	2003
Assets		
Current assets		
Due from the Consolidated Revenue Fund	\$ 7,076,078	\$ 4,549,117
Accounts receivable	913,869	1,235,867
	7,989,947	5,784,984
Capital assets (note 4)	7,130,607	5,781,745
	\$ 15,120,554	\$ 11,566,729
Liabilities and Deficit		
Current liabilities		
Accounts payable and accrued liabilities		
Due to employees	\$ 3,143,515	\$ 2,575,357
Due to others	4,263,283	2,228,197
Vacation pay	2,686,779	2,635,639
Current portion of employee severance benefits	2,728,112	2,536,832
	12,821,689	9,976,025
Employee severance benefits (note 5)	9,770,860	9,307,475
Deficit (note 6)	(7,471,995)	(7,716,771)
	\$ 15,120,554	\$ 11,566,729

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

	2004	2003
Expenses (note 7)		
Performance audits and studies	\$ 39,617,157	\$ 38,397,872
Financial audits of Crown corporations, territorial governments, and other organizations	22,350,211	20,618,025
Financial audit of the summary financial statements of the Government of Canada	4,393,421	5,692,527
Special examinations of Crown corporations	4,311,941	3,845,356
Sustainable development monitoring activities and environmental petitions	2,600,368	2,677,215
Assessments of agency performance reports	1,053,166	897,874
Total cost of audits	74,326,264	72,128,869
Professional practice (note 8)	6,028,158	7,426,172
Total cost of operations	80,354,422	79,555,041
Cost recovered		
International audits	824,664	787,658
Other	105,882	484,402
Total costs recovered	930,546	1,272,060
Net cost of operations	\$ 79,423,876	\$ 78,282,981

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

	2004	2003
Deficit, beginning balance (note 6)	\$ (7,716,771)	\$ (8,792,556)
Total cost of operations	(80,354,422)	(79,555,041)
Parliamentary appropriations used (note 3)	71,762,501	71,735,350
Services provided without charge by other government departments (note 7)	8,836,697	8,895,476
Deficit, ending balance	\$ (7,471,995)	\$ (7,716,771)

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

	2004	2003
Operating activities		
Cash payments	\$ (66,724,993)	\$ (71,826,063)
Cash receipts	830,554	1,272,060
Cash used in operating activities	(65,894,439)	(70,554,003)
Investing activities		
Capital asset acquisitions	(3,344,113)	(3,160,988)
Proceeds from the disposal of capital assets	3,012	50,990
Cash used in investing activities	(3,341,101)	(3,109,998)
Financing activities		
Parliamentary appropriations used (note 3)	71,762,501	71,735,350
Cash provided by financing activities	71,762,501	71,735,350
Increase (Decrease) in Due from the Consolidated Revenue Fund during the year	2,526,961	(1,928,651)
Due from the Consolidated Revenue Fund, beginning of year	4,549,117	6,477,768
Due from the Consolidated Revenue Fund, end of year	\$ 7,076,078	\$ 4,549,117

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 2004

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 the monitoring of federal departments and agencies; Crown corporations; territorial governments; and other organizations, which include two international organizations.

The business line of the Office of the Auditor General of Canada is legislative auditing and consists of performance audits (formerly called value-for-money audits) and studies 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; sustainable development monitoring activities and environmental petitions; 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 are not available for use 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:

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

f) Employee severance benefits and vacation pay

Employee severance benefits and vacation pay are expensed as benefits accrue to employees under their respective terms of employment using the employees' salary levels at year end. Employee severance benefits and vacation pay liabilities represent obligations of the Office that are 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 charges 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 significantly 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:

	2004	2003
Net cost of operations	\$ 79,423,876	\$ 78,282,981
Less: expenses not requiring the use of appropriations		
Amortization of capital assets	(1,989,647)	(1,607,136)
Services provided without charge by other government departments	(8,836,697)	(8,895,476)
Other	(17,245)	
Add: Costs recovered	930,546	1,272,060
	69,510,833	69,052,429
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations	(1,092,445)	(478,067)
Parliamentary appropriations applied to operations	68,418,388	68,574,362
Capital asset acquisitions funded by appropriations	3,344,113	3,160,988
Total parliamentary appropriations used	\$ 71,762,501	\$ 71,735,350

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

	2004	2003
Parliamentary appropriations voted:		
Operating expenditures	\$ 66,611,200	\$ 65,008,663
Statutory contributions to employee benefit plans	7,781,325	8,748,270
Proceeds from disposal of capital assets	3,012	50,990
	74,395,537	73,807,923
Less: Lapsed appropriations—operating expenditures ¹	(2,633,036)	(2,072,573)
Total parliamentary appropriations used	\$ 71,762,501	\$ 71,735,350

¹Subject 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 2003–04, this amount is \$2.9 million (\$3.0 million in 2002–03) for the Office.

4. Capital assets

	2004			2003	
	Cost				
	Opening Balance	Net additions for the year	Accumulated amortization	Net book value	Net book value
Informatics hardware and infrastructure	\$ 1,938,869	\$ (12,831)	\$ 1,685,055	\$ 240,983	\$ 349,929
Office equipment	971,926	140,579	586,203	526,302	566,964
Furniture and fixtures	2,247,661	2,036,517	552,985	3,731,193	2,127,198
Informatics software	2,926,141	110,720	2,696,863	339,998	1,178,903
Motor vehicle	24,305		11,342	12,963	17,824
Leasehold improvements	1,600,639	915,901	237,372	2,279,168	1,540,927
	\$ 9,709,541	\$ 3,190,886	\$ 5,769,820	\$ 7,130,607	\$ 5,781,745

Amortization expense for the year ended 31 March 2004 is \$1,989,647 (\$1,607,136 in 2003).

5. Employee severance benefits

	2004	2003
Employee severance benefits, beginning of year	\$ 11,844,307	\$ 11,140,162
Expenses for the year	1,392,850	981,019
Benefits paid during the year	(738,185)	(276,874)
Employee severance benefits, end of year	\$ 12,498,972	\$ 11,844,307

Employee severance benefits are funded through parliamentary appropriations on a pay as you go basis.

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 severance benefits and vacation pay liabilities.

The opening balance of the deficit at 1 April 2002 has been increased by \$966,956, with a corresponding reduction in Due from the Consolidated Revenue Fund to reclassify a portion of employee severance benefits and vacation pay liabilities that have not yet been funded through appropriations. This reclassification has not affected the Office's use of parliamentary appropriations.

7. Summary of expenses by major classification

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

	2004	2003
Salaries and employee benefits	\$ 57,938,872	\$ 56,725,505
Professional services	8,148,924	8,306,607
Office accommodation	5,305,289	5,816,564
Travel, relocation, and communication	4,226,220	4,429,505
Informatics, informatics maintenance, and repairs, office equipment, and furniture and fixtures	3,293,058	2,752,033
Printing and publications services	585,165	774,745
Utilities, materials and supplies, and other payments	477,970	372,046
Contribution to the CCAF-FCVI Inc.	378,924	378,036
Total cost of operations	\$ 80,354,422	\$ 79,555,041

In 2004, the total cost of operations included services provided without charge by other government departments totaling \$8,836,697 (\$8,895,476 in 2003). This is composed of \$5,305,289 (\$5,816,564 in 2003) for accommodation, \$3,136,368 (\$3,078,912 in 2003) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan, and \$395,040 for employee benefits.

8. Professional practice

The Office works with other legislative audit offices and professional associations such as the Canadian Institute of Chartered Accountants to advance legislative audit methodology, accounting standards, and best practices. 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.

	2004	2003
International activities	\$ 2,668,134	\$ 2,352,551
Methodology and knowledge management	1,875,909	3,609,059
Canadian Council of Legislative Auditors	528,123	418,074
External review	406,513	519,296
Contribution to the CCAF-FCVI Inc.	378,924	378,036
Participation in standard-setting activities	170,555	149,156
Professional Practice	\$ 6,028,158	\$ 7,426,172

9. Contingencies

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 \$5.41 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 as a result 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 2004, the Office incurred expenses of \$21,821,371 (\$22,275,386 in 2003) and recovered costs of \$3,491,933 (\$1,521,435 in 2003) 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 \$8,836,697 (\$8,895,476 in 2003) as described in note 7.

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

	2004	2003
Accounts receivable	\$ 645,583	\$ 1,111,492
Accounts payable	868,844	863,225

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 \$5,540,303 for the year ended 31 March 2004 (\$5,922,577 for 2003).

Section V—Other Information

What's new in the 2003–04 Performance Report

There are minor changes in the structure of our *2003–04 Performance Report*:

- We have continued to refine and improve our Results chain on page 16.
- Section I now includes the Performance highlights, which follow the message from the Auditor General and the management representation statement.
- Section III organizes our performance results under the three goals from our strategic plan instead of our five strategic challenges.
- Section IV now includes performance results for the Advancing Audit Practices Project.

Statutory reports

Report of the Auditor General of Canada to the House of Commons	Published periodically. Available in a variety of formats and on our Web site.
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.
Opinion and Observations 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 our Web site.
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.

Web site references

Many items, which are of interest but not critical to reporting our performance, are available at the following Web sites.

Office of the Auditor General of Canada	
Office of the Auditor General	www.oag-bvg.gc.ca
Sheila Fraser, Auditor General of Canada	www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html
Commissioner of the Environment and Sustainable Development	www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu8_e.html
<i>Auditor General Act</i>	laws.justice.gc.ca/en/A-17/index.html
<i>Financial Administration Act</i>	laws.justice.gc.ca/en/F-11/index.html
Reports to Parliament	www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html
Observations of the Auditor General on the Financial Statements of the Government of Canada	www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html
Publications	www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html
Practice review and internal audit reports	www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html
External review reports	www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html
Sustainable Development Strategy, 2004-06	www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html
Comptrollership Capacity Assessment and Action Plan	www.oag-bvg.gc.ca/domino/other.nsf/html/200403ccap_e.html
Government of Canada	
Parliament	www.parl.gc.ca
Standing Committee on Public Accounts	www.parl.gc.ca
Standing Committee on Environment and Sustainable Development	www.parl.gc.ca
Standing Committee on National Finance	www.parl.gc.ca
Treasury Board of Canada Secretariat	www.tbs-sct.gc.ca
Results for Canadians: A Management Framework for the Government of Canada	www.tbs-sct.gc.ca/res_can/rc_e.html
Results-Based Management and Accountability Framework of the Modern Comptrollership Initiative	www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAF02_e.asp
TBS Management Accountability Framework	www.tbs-sct.gc.ca/maf-crg/index_e.asp
Financial Information Strategy	www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp

Professional organizations	
Canadian Council of Legislative Auditors	www.ccola.ca/index_english.cfm
CCAF-FCVI Inc.	www.ccaf-fcvi.com/entrance.html
Canadian Evaluation Society	www.evaluationcanada.ca
Canadian Institute of Chartered Accountants	www.cica.ca/index.cfm/ci_id/17150/la_id/1.htm
Environmental Working Group (INTOSAI)	www.environmental-auditing.org
Financial Management Institute	www.fmi.ca
International Federation of Accountants	www.ifac.org
Institute of Internal Auditors	www.theiia.org
International Organization of Supreme Audit Institutions (INTOSAI)	www.intosai.org
United Nations Panel of External Auditors	www.unsystem.org/auditors/external.htm

Methodological endnotes

- 1 During 2001–02, we conducted a survey of members of Parliament, including those 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.

In our survey, we developed a comprehensive methodology to take into account the multiple aspects of our relationship with Parliament. All the interviews were conducted by a consultant to ensure independence of results. First, we decided to set up interviews with all members of the standing committees on Public Accounts and Environment and Sustainable Development since they are most likely to use our reports. Our consultant interviewed 16 out of the 17 members of the Standing Committee on Public Accounts and 12 out of 16 members of the Standing Committee on Environment and Sustainable Development. For members of Parliament and Senators, we took a random sample of individuals from the combined group and interviewed them. The sample size was 60, with a margin of error of ± 9.8 percent, 18 times out of 20. For each of the individual questions, the confidence interval is likely to be smaller. To obtain this level, 104 members of Parliament and Senators were contacted, resulting in a response rate of 58 percent. The main reason that most members of Parliament and senators cited for not engaging in interviews was that they were too busy with the shortened session and had conflicting schedules.

- 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 (performance audits reviewed by parliamentary committees) is a ratio of 2003-04 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 proportions of audits reviewed by parliamentary committees must be interpreted cautiously. We reported fewer audits in 2001-02, allowing more time per audit for committee review. The higher number of audits compared with the number of hearings explains variances in our performance.
- 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 or when the report states that they support all of our recommendations. 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 2003-04 performance are not sufficient to accurately reflect our performance. The Committee did not have much time to review audits from our March 2004 report due to the attention directed to the Sponsorship Program audit and the federal election.
- 4 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 have not verified the reliability of this information. Recommendations arising from government-wide audits and audits carried out by the Commissioner of the Environment and Sustainable Development are excluded.

In 2002, we modified this performance indicator to focus more directly on departments' success in fully implementing our recommendations after a reasonable period of time. In the coming year, we will establish a baseline that will enable us to set a target. This new indicator uses a four-year interval because our historical data show that departments and agencies often need this time to complete action on our recommendations. In order to apply consistent methodology and to have a three-year data series, in 2002, we reported our 1998 recommendations. Prior to 2002, we were measuring the number of recommendations implemented over a five-year period.

- 5 Although the questions asked in the surveys of annual audits and performance audits are slightly different, we are still able to make general comparisons among the two types of audits.

With respect to annual financial audits, a total of 121 questionnaires were sent, 71 for chief financial officers (CFOs) and 50 for audit committee chairs (ACCs). Eighty-two questionnaires were returned for an overall response rate of 68 percent. Fifty-four questionnaires sent to CFOs were returned and 28 were returned from AACs. Respectively, the response rates for these two groups are 76 percent and 56 percent. The overall margin of error for the results of the annual financial audits survey is 5.8 percent, 19 times out of 20.

With respect to performance audits, a total of 79 questionnaires were sent to deputy ministers (DMs) or equivalents. Sixty-two questionnaires were returned giving a response rate of 78 percent. The overall margin of error for the results of the performance audit survey is 6.1 percent, 19 times out of 20.

- 6 The survey of Office employees was administered using the intranet. A total of 652 invitations were sent to employees. A total of 450 employees completed the survey. The overall response rate was 69 percent. The overall margin of error associated with this survey is 2.6 percent 19 times out of 20.
- 7 This number does not include individuals that have been excluded from the language requirements due to reasons such as approaching retirement. Fifteen of the seventy-two principals and assistant auditors general were excluded from the language requirements, and fifteen of the ninety-eight directors were excluded from the language requirements.