



Office of the Auditor General of Canada

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# **2005–06 Estimates**

## **Performance Report**

Approved

Sheila Fraser, FCA  
Auditor General of Canada

Honourable James Michael Flaherty, P.C., MP  
Minister of Finance

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# Message from the Auditor General of Canada



Sheila Fraser, Auditor General of Canada

I am pleased to present the Office's *2005–06 Performance Report*.

In Canada, the government and the public service are the guardians of public funds entrusted to them. One of Parliament's most important roles is to hold the government to account for the results it achieves with taxpayer dollars. To do this effectively, parliamentarians need objective information they can rely on to scrutinize government activities and spending.

The Office of the Auditor General is an independent source of such information, which we gather in the course of carrying out more than 100 financial and performance audits every year. The reports we give to Parliament describe areas within government requiring attention, offer recommendations for improvement, and point out good practices.

Parliament provides government oversight through its committees, which may review our reports, conduct hearings, and make recommendations to the government for action. It is up to the government to implement changes recommended by our reports. By carrying out our distinct roles and working together effectively, Parliament, the government, and my Office all contribute to well-managed and accountable government for Canadians.

In June 2005, the *Budget Implementation Act* expanded our mandate in two particular areas: Crown corporations and foundations. The expansion of our mandate is an expression of Parliament's confidence in our work and addresses concerns we raised in 1999 and 2002 about the governance and accountability of foundations.

With regard to Crown corporations, the Act expanded our mandate to include all Crown corporations, except for the Bank of Canada and the Canada Pension Plan Investment Board.

The Act also gave the Office access to foundations for the purpose of carrying out performance and compliance audits. Foundations are non-government organizations that are entrusted with large amounts of public money to fulfill significant public policy roles. Since 1997, billions of dollars in public funds have been transferred to foundations that were not subject to parliamentary oversight or external audit.

The ability of Parliament's auditor to review the use of significant amounts of public money transferred to foundations has been a long-standing concern of the Office and me personally. I am very pleased that this issue has been satisfactorily resolved.

I am also pleased to report that there has been progress in developing a new funding mechanism for agents of Parliament. Like government departments, the Office of the Auditor General negotiates its level of funding with the Treasury Board Secretariat, one of the organizations it audits. We have expressed concerns about this process in that it is not sufficiently independent to ensure that our budget is appropriate for meeting Parliament's expectations. In 2005, the government committed to implementing a pilot project for a new funding and oversight mechanism for the 2006–07 and

2007–08 Estimates process for all Agents of Parliament. The new mechanism seeks to respect the role of Parliament and the independence and distinct mandates of its agents, and also reflect the responsibility of the government for sound stewardship of public resources.

A parliamentary oversight panel was formed, a process agreed upon, and work commenced. The panel ceased to exist upon the dissolution of the 38th Parliament on 29 November 2005, before we had the opportunity to appear before it. We look forward to the establishment of a new parliamentary panel under the 39th Parliament and the resumption of the pilot project, leading to the permanent resolution of this long-standing issue.

We have continued to improve the way we measure and report to Parliament on our performance. The result is this performance report, which I believe presents a clear and straightforward story about the value and impact of our work. Many of the indicators show that our work continues to add value to the key users of our reports and to the organizations we audit, and that these groups respond to our findings. A couple of indicators direct our attention to areas for improvement, including the need to increase the implementation rate of our performance audit recommendations. Our support of the Treasury Board Secretariat's review of departmental responses to our recommendations is our most recent effort to address this area.

Overall, I believe the performance of the Office is captured in two very important ways. The first is the endorsement of our work by the House of Commons Standing Committee on Public Accounts. In its *Report on Plans and Priorities 2005–2006 of the Office of the Auditor General*, the Committee stated that “the Office of the Auditor General of Canada occupies a vital and indispensable role.” On behalf of all of my staff, let me say how much we value this endorsement and how much we look forward to continuing to serve parliamentarians.

The second way our performance is captured is through the results of our employee survey. Ninety percent of employees responded to the survey, which is the highest response rate we've ever achieved and twenty points higher than the norm for most organizations. Eighty-two percent of employees believe the Office is above average or one of the best organizations to work for. The Office is 21 percent above the norm in this regard and has improved 12 percent since the 2004 survey. I am extremely pleased and very proud that the overall survey results indicate such a high level of employee satisfaction and engagement. I would like to take this opportunity to thank my staff for their continued dedication to the Office and Parliament we serve.

I trust you will find this performance report presents an open and balanced picture of our activities and impacts in 2005–06.

Sheila Fraser, FCA  
Auditor General of Canada

29 September 2006

# Management representation statement

We submit, for tabling in Parliament, the Office of the Auditor General of Canada's *2005–06 Performance Report* for the year ended 31 March 2006. Management of the Office of the Auditor General is responsible for preparing this report. The report

- presents fair and reliable information;
- provides a basis of accountability of the results achieved with the resources and authorities entrusted to the Office;
- reports its finances based on approved numbers from the Estimates, the Public Accounts of Canada, and our audited financial statements; and
- is based on the Office's program activity architecture and on the reporting principles in the Treasury Board Secretariat's *Guide for the Preparation of 2005–06 Departmental Performance Reports*.

In meeting its reporting responsibility, management has established and followed procedures and controls designed to provide reasonable assurance of the fairness and reliability of the performance information. While the Office continually strives to improve its performance information, the information in this report is the best currently available and management considers it reasonable for the purpose of preparing this report. Some of the information is based on management's best estimates and judgments, and any limitations to the quality of the data provided are disclosed in the report.

The Office's Executive Committee oversees the preparation of the report, and approves it based on the advice of the Office's Audit Committee.

Sheila Fraser, FCA  
Auditor General of Canada

Robert D'Aoust, CA  
Comptroller and Senior  
Financial Officer

Ottawa, Canada  
29 September 2006





# Performance highlights

## Achievements

We completed close to all planned audit work—about 140 financial and performance audits, special examinations and other reports, plus one special report to Parliament.

To better assist parliamentarians, we revised our presentation of Main Points summaries in our performance audit reports. They now cover what we examined, why it's important, and what we found.

A survey of key users of our reports indicated that

- 94 percent considered that our findings were reported in an objective and fair manner, exceeding our target; and
- 88 percent considered that our reports were clear and concise, again exceeding our target.

We met or exceeded our targets for the percentage of audited organizations that considered that our findings were reported in an objective and fair manner and that our reports were clear and concise.

The Public Accounts Committee endorsed 74 percent of our performance audit recommendations that it reviewed; our target was 75 percent.

We participated in 22 hearings and briefings: 13 with the Public Accounts Committee and 9 with other committees. While this is a decrease from 37 the previous year, we tabled only three reports instead of our planned four, due to the dissolution of Parliament.

We assessed the actions of 13 organizations in implementing 25 commitments from their 2001 and 2004 sustainable development strategies, and we reported on the adequacy of government direction in preparing the 2004 strategies.

We received 32 environmental petitions, 90 percent of which were responded to by ministers within the time limit (120 days) specified in the *Auditor General Act*.

We reported eight financial and performance audit internal practice reviews, all of which concluded that our audits were conducted in accordance with our quality management frameworks.

Our employee survey indicated that

- 82 percent of our employees believe the Office is above average or one of the best organizations to work for; and
- 92 percent say they feel proud to work for the Office.

## Areas for improvement

Less than half (44 percent) of our performance audit recommendations reported in 2001–02 were fully implemented—similar to previous years. We would like to see this percentage increase and have taken steps toward that goal. We are also supporting the Treasury Board Secretariat's review of departmental responses to recommendations.

Just over half (55 percent) of special examinations completed in the current cycle were transmitted at least one month after the statutory date. One of our management committees is overseeing the development of an action plan to redress this situation for the upcoming cycle.



# Section I—Overview

## What we do: Legislative auditing

The Office of the Auditor General of Canada conducts independent audits and studies that provide objective information, advice, and assurance to Parliament, territorial legislatures, government, and Canadians. With our reports and testimony at parliamentary hearings, we assist Parliament in its work related to the authorization and oversight of government spending and operations by answering many important questions (Exhibit 1).

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.

Exhibit 1—The Auditor General answers many important questions

Legislative audit subactivities <sup>1</sup>	Questions
Performance audits and studies of departments and agencies	Are federal government programs well managed? Were they run with due regard to economy, efficiency, and their environmental effects? Does the government have the means to measure their effectiveness where it is reasonable and appropriate to do so?
Audit of the annual summary financial statements of the Government of Canada	Is the government presenting fairly its overall financial situation?
Financial audits	Is the annual financial information of the Crown corporations, territorial governments, and other organizations presented fairly and are they complying with their legislative authorities?
Special examinations	Do the systems and practices used by Crown corporations 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	Are departments and agencies meeting the objectives and implementing the plans set out in their sustainable development strategies? Are ministers responding as required to environmental petitions?
Assessments of three annual performance reports	Are the Canadian Food Inspection Agency, Parks Canada Agency, and the Canada Revenue Agency presenting their performance information (published annually in their statutory reports) fairly and in a reliable way?

<sup>1</sup> These audits and studies are explained in more detail in the *Auditor General Act* (sections 5, 6, 7, and 23) and the *Financial Administration Act* (Part X).

### Our major subactivities

Legislative auditing, our main activity, consists of eight subactivities, two of which are supporting activities: professional practices and audit services (see Exhibit 1 for details of the six other subactivities). This performance report focusses on the results of our four major subactivities:

- performance audits and studies;
- financial audits of Crown corporations, territorial governments, and other organizations;

- audit of the summary financial statements of the Government of Canada; and
- special examinations.

Throughout the balance of this document, we discuss the financial audits of Crown corporations, territorial governments, and other organizations, as well as the audit of the summary financial statements of the Government of Canada together under the heading of “financial audits.”

**Performance audits and studies.** Performance audits examine, against established criteria, whether government programs are being managed with due regard to economy, efficiency, and environmental impact, and whether measures are in place to determine their effectiveness. Our reports contain recommendations to address the most serious deficiencies identified.

The *Auditor General Act* gives the Office discretion to determine what areas of government to examine when doing performance audits. We may decide to audit a single government program or activity, such as pesticide regulation; an area of responsibility that involves several departments or agencies, such as the protection of cultural heritage; or an issue that affects many departments, such as the security of information technology. We consider requests for audits received from parliamentary committees; however, the ultimate decision about what to audit rests with the Auditor General.

The Office does not audit areas that fall outside its mandate. Examples are policy decisions, which are the prerogative of Parliament and government, and any areas under the exclusive jurisdiction of provincial or municipal governments.

**Financial audits.** Our financial audits provide assurance that financial statements are presented fairly in accordance with Canadian generally accepted accounting principles or other relevant standards. We conduct financial audits of federal and territorial Crown corporations, other organizations, and the summary financial statements of the Government of Canada and of each of the three territories.

Where required or appropriate, we provide assurance that these organizations comply with the key legislative authorities that govern their activities. If issues come to our attention during our financial audit work, we recommend improvements to management and the boards of directors in areas such as financial reporting and internal controls.

**Special examinations.** A special examination assesses the management systems and practices of a Crown corporation and provides an opinion on whether there is reasonable assurance that there are no significant deficiencies. All Crown corporations require a special examination of their organization once every five years. We refer to each five-year period as a “cycle.”

## Who we serve

Our primary responsibility is to Parliament, and our relationship with parliamentarians is key to our effectiveness.

**Parliamentary standing committees.** The Auditor General’s main 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 Senate Standing Committee on National Finance and other parliamentary committees also rely on our work.

The House of Commons Standing Committee on Environment and Sustainable Development and the Senate Standing Committee on Energy, the Environment and Natural Resources draw on the work of the Commissioner of the Environment and Sustainable Development, who leads the environmental audit function within the Office.

**Territorial legislatures.** As the legislative auditor of the three territories, the Auditor General's opinions on financial statements and reports on other matters are presented to the territorial legislatures. The reports on other matters are discussed in hearings of the Yukon Standing Committee on Public Accounts, Nunavut Standing Committee on Government Operations and Accountability, and the Northwest Territories Standing Committee on Accountability and Oversight.

**Crown corporations.** We conduct financial audits and special examinations of Crown corporations and present our reports to their boards of directors. Where certain types of significant deficiencies are present in special examinations, such as those related to mandate issues, issues that only the government can address, issues of a governance nature, and problems previously reported, a report is presented to the responsible Minister or Parliament.

## How we are held accountable

### 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 Canadian generally accepted accounting principles. They are included in this performance report, beginning at page 37.

The Office is also subject to scrutiny by the Official Languages Commissioner on language issues, by the Public Service Commission on staffing and classification practices, by the Privacy Commissioner on adherence to the *Privacy Act*, and by the Canadian Human Rights Commission.

### We are accountable to Parliament

**Operations and funding.** The Auditor General submits annual Estimates documents to Parliament. The House of Commons Standing Committee on Public Accounts calls on the Auditor General to explain the Estimates and to discuss our report on plans and priorities, our performance report, and our management practices.

The Office is funded by Parliament, in the same manner as government departments. Historically, also like government departments, we have negotiated the level of funding with the Treasury Board Secretariat, one of the organizations we audit. However, that process is not sufficiently independent to ensure that our budget is appropriate for meeting Parliament's expectations. In 2005, the government committed to implementing a pilot project for a new funding and oversight mechanism for the 2006–07 and 2007–08 Estimates process for all Agents of Parliament. The new mechanism seeks to respect the role of Parliament and the independence and distinct mandates of its Agents, and also to reflect the responsibility of the government for sound stewardship of public resources.

A parliamentary oversight panel was formed, a process agreed upon, and work commenced. The panel ceased to exist when the 38th Parliament dissolved on 29 November 2005, before we had the opportunity to appear before it. We look forward to the establishment of a new parliamentary panel under the 39th Parliament and the resumption of the pilot project, leading to the permanent resolution of this long-standing issue.

**Audit reports.** Our performance audits are published and tabled in Parliament up to four times a year in the reports of the Auditor General of Canada and the Commissioner of the Environment and Sustainable Development. These reports are reviewed and discussed in hearings of the Public Accounts Committee and several other parliamentary committees.

We report our opinion and observations on the summary financial statements of the Government of Canada in the “Public Accounts of Canada, Volume 1” and publish reports on the use of financial information and other significant issues in the Auditor General’s reports to Parliament.

Financial audits of Crown corporations are published annually in the statutory reports of these organizations. Financial audits of territorial governments are published annually in the public accounts of the territorial governments of Nunavut, the Yukon, and the Northwest Territories.

Our special examination reports are addressed to the boards of directors of the corporations involved. The 2004 federal Budget proposed that Crown corporations table the reports in Parliament and post them on their Web sites. Although the reports are not being tabled, posting on Web sites is now common practice.

### **Our methodologies are regularly assessed**

Our audit work is guided by a rigorous methodology and quality management framework. The design of our framework and its application to our audit work are subjected to internal practice reviews and to external reviews by peers. These reviews provide assurance that our audits are conducted in accordance with established standards of professional practice. Summaries of the results of our practice reviews and internal audits can be found on pages 22–23.

## Section II—Reporting on Results

We measure and monitor our performance against our results chain. It links what we deliver—audits, reports, studies, opinions, information, and advice—to our long-term result. Our results chain is summarized in Section IV, page 57.

Our core performance indicators for performance audits, financial audits, and special examinations measure the extent that

- our work adds value for the key users of our reports (page 11),
- key users of our reports are engaged in the audit process (page 14),
- our work adds value for the organizations we audit (page 16),
- key users of our reports and the organizations we audit respond to our findings (page 18),
- our quality management framework is operating effectively (page 22), and
- our work is delivered on budget and on time (page 23).

In this section, we present our results for each of these performance indicators.

In addition to measuring the Office’s ongoing performance, we identified three priorities for 2005–06 in our Report on Plans and Priorities:

- **Implement our renewed parliamentary strategy.** Our actions on this priority are set out under four specific objectives (see Implementing our renewed parliamentary strategy, page 24).
- **Improve our workplace.** Our results related to this priority are also set out under four objectives (see Providing a respectful workplace, page 26).
- **Improve our performance measurement and reporting.** The achievement of this objective is an ongoing effort. Changes that have been made to enhance our reporting are highlighted throughout section II of our performance report.

### Our core performance indicators

#### ■ Our work adds value for the key users of our reports

For this indicator, we survey the key users of our reports:

- parliamentarians and parliamentary committees for performance audits,
- audit committees and other bodies having financial reporting oversight responsibility for financial audits, and
- boards of directors of Crown corporations for special examinations.

We began to report the survey results under this methodology of performance assessment in our *2003–04 Performance Report*. For details on the methodology used, see endnote 1 on page 58.

In this performance report, we present the survey results for the following five items, which we use to define the term “add value”:

- 1) The audit/examination focussed attention on the most important issues within its scope.
- 2) The findings were reported in an objective and fair manner.
- 3) The reports arising from the audit/examination were clear and concise.
- 4) The audit/examination identified good opportunities for improvement.
- 5) The audit assisted in improving the quality of financial reporting (users of financial audit reports are asked to assess this item).

Survey respondents were asked to rate these items on a five-point scale ranging from “very poor” to “very good.” The same methodology is used for the indicator “Our work adds value for the organizations we audit.”

Last year, we set targets for our financial and performance audits at 75 percent and 50 percent respectively (percentage of respondents who found that our reports added value). We did not set a target for special examinations because we had not yet surveyed all of the organizations that we audit.

**Overall results.** We now have the results of two sets of biennial surveys for financial audits (pages 13 and 17), three years worth of data for performance audits (page 16), and an ongoing collection of data from the fourth cycle for most of the Crown corporations subject to special examinations (pages 14 and 17). These early results are positive: for financial audits, results are mainly at or near our target; for performance audits, they are mainly near or above the target; and for special examinations, the results are generally very positive. For all of our audit types, we have met or exceeded our targets for our reports being considered clear and concise, and for our findings being reported in an objective and fair manner.

The results of these surveys are communicated to our audit teams and to the senior management of the Office to help us manage our audits and our relations with the organizations we audit in a professional manner.

The Office’s senior management is monitoring the results from these surveys in order to follow up on any significant trends that develop between our targets and the survey responses we receive. For one indicator—“The audit identified good opportunities for improvement”—we are reviewing the possible reasons for the relatively modest score and will be closely monitoring the results of future assessments.

Details of the results appear later in this section.

**Parliamentarians and parliamentary committees.** Parliament is the key user of our performance audits. These audits are tabled in the House of Commons and are reviewed by the Public Accounts Committee and several other parliamentary committees. We had planned to conduct a survey of all parliamentarians in 2005, similar to the one conducted in 2002, to determine whether we were achieving our objectives and meeting their needs. However, the 2004 and 2006 federal elections brought many new members to the House of Commons, and we considered that parliamentarians needed time to familiarize themselves with our mandate and our reports before being asked to comment. Therefore, we did not carry out a survey. For details on the 2002 survey, see endnote 2 on page 58.



Beginning in 2006–07, and annually thereafter, we will seek feedback with a short, focused questionnaire from members of the House of Commons Public Accounts Committee and the Environment and Sustainable Development Committee, and the Senate Finance and Energy committees. The questionnaire will seek to determine the value of our performance audits with questions similar to those in our surveys of audit committees and Crown corporation boards.

In its *Report on the 2006–07 Estimates and Performance of the Office of the Auditor General of Canada*, tabled on 16 June 2006 in the House of Commons, the Public Accounts Committee again expressed its gratitude and support for the work that we do. Specifically, it stated:

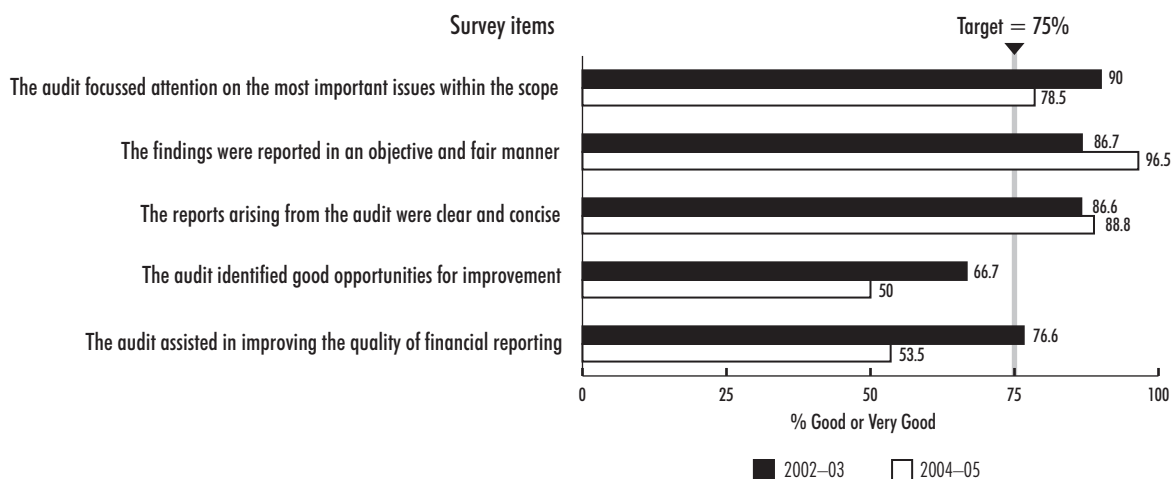
The Committee deeply appreciates the high level of professionalism demonstrated by the Office of the Auditor General of Canada. Parliament and Canadians are well-served by the work of the Office which yearly makes a significant contribution in the development of a government that is more effective, efficient, and economical. With continued support for its work in the form of appropriate funding, the Office will be able to fulfill its mandate in keeping with the expectations that have been placed upon it.

The Office greatly appreciates this endorsement of our work and will continue to strive to serve parliamentarians well in fulfilling their oversight of federal government operations and spending.

**Audit committees and other bodies with financial reporting oversight responsibility.** To determine the value of our financial audits, we regularly survey the chairs of audit committees and other bodies with financial reporting oversight responsibility (Exhibit 2).

In our *2005–06 Report on Plans and Priorities*, we established a target of 75 percent as the percentage of responding committee chairs that we hoped would consider our financial audits to have added value (that is, the percentage of items included in the survey that were ranked as good or very good). We used this target rate to assess the two most recent surveys.

Exhibit 2—Financial audits add value for audit committee chairs

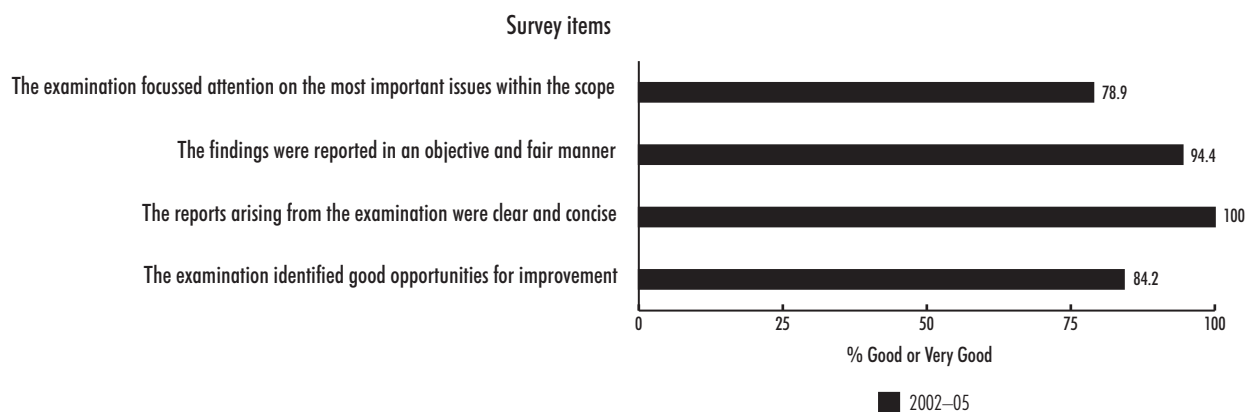


The results in 2002–03 were at or above target for four of the five items surveyed and three of the five items in 2004–05. The highest score in 2004–05 was for communicating information in an objective and fair manner, with 96.5 percent of respondents rating the Office as either good or very good. Other areas where the target was met included focussing attention on the most important issues and providing clear and concise reports. However, the results are below our target for identifying areas for improvement and assisting in improving the quality of financial reporting.

**Boards of directors of Crown corporations.** To determine the value of our special examinations to Crown corporations, we regularly survey their board chairs (Exhibit 3).

We did not establish a target in our *2005–06 Report on Plans and Priorities* for the percentage of audited organizations that found our special examinations added value. For all four items, more than 75 percent of respondents rated our performance as good or very good, while 100 percent believed that the reports arising from the examination were clear and concise.

Exhibit 3—Special examinations add value for board chairs



## ■ Key users of our reports are engaged in the audit process

It is important that the key users of our reports be engaged in the audit process, understand the nature and objectives of our work, and understand our reports and follow up on issues presented in them.

**Involvement with parliamentary committees.** While many parliamentary committees draw on our work, the Office’s main relationship is with the Public Accounts Committee. Our appearances before committees assist parliamentarians in fulfilling their oversight role and give us the opportunity to increase awareness and understanding of the issues in the reports.

Parliamentary committee hearings also encourage departments and agencies to implement our recommendations. Following a hearing, the committee may report and make recommendations to the government. Departments and agencies are usually expected to report to the committees on what they have done in response to these recommendations.

In 2005–06, we participated in 22 hearings and briefings (Exhibit 4): 13 with the Public Accounts Committee and 9 with other committees.

The number of appearances before the Public Accounts Committee was the same as last year. For other committees, there was a decrease from previous years (24 in 2004–05 and 17 in 2003–04). The decrease is due to our tabling three reports instead of four in 2005–06 and tabling our November 2005 Report just a few days before the dissolution of Parliament for the remainder of 2005–06. As a result, parliamentary committees reviewed only 36 percent of our 2005–06 performance audits, a decrease from 52 percent the previous year (Exhibit 5). (See endnote 3 on page 59.)

Committee hearings covered a wide range of topics and audit reports, including, for example, civil emergency plans at Natural Resources Canada, national security matters, and accountability of foundations. Our Office also participated in hearings on environmental issues, including invasive species and the quality of drinking water in Aboriginal communities.

**Involvement with Crown corporation boards and other bodies having oversight responsibility for financial reporting.** Throughout the audit process, we work closely with the boards of directors of Crown corporations who oversee the affairs of their corporations and with other bodies having oversight responsibility for financial reporting.

As an external auditor, the Office of the Auditor General engages these bodies in our audit work and processes to help them fulfil their oversight responsibilities. These bodies will usually consult regularly with our audit team to ensure that we are independent and have the necessary competencies and knowledge of the corporation and the operating environment to conduct our audit in accordance with generally accepted auditing standards. These regular consultations also provide an open avenue of communication with our audit team to prevent difficulties in the conduct of the audit, such as scope restrictions or access to required information.

We also seek input from these bodies in preparing our audit plans. The bodies will normally review the audit plan, including the audit scope, strategy, and detailed procedures. Discussions include, among other things, how the plan addresses the corporation’s significant risks and other matters of interest that may have an impact on our work. In finalizing our audit report, we meet with them to discuss any significant findings and recommendations together with management’s response and follow-up action. Finally, we solicit feedback from members of boards and other oversight bodies as part of our post-audit assessment process. We use the results of this feedback to assess our effectiveness and improve our practices.

Exhibit 4—We participate in parliamentary hearings and briefings

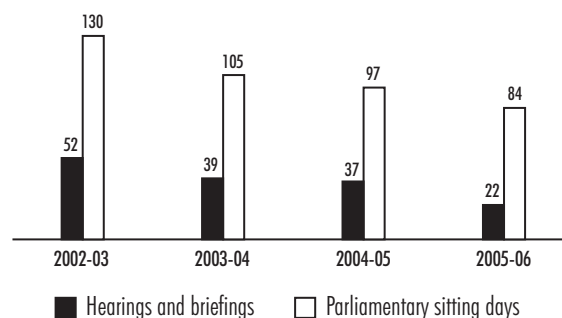
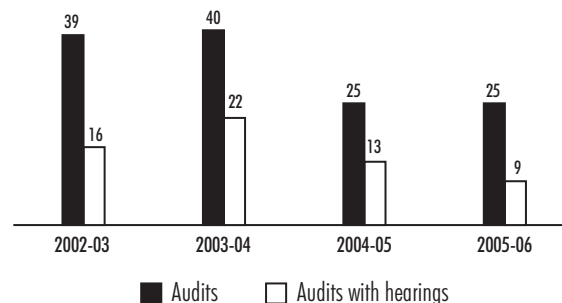


Exhibit 5—Parliamentary committees review our performance audit and related products



We believe that the quality of our audit products greatly benefits from this open communication and active participation of audit committees and other bodies having oversight responsibility for financial reporting.

**■ Our work adds value for the organizations we audit**

The Office regularly surveys representatives of the organizations we audit to determine their assessment of the added value of our work. We have identified three key representatives of the organizations we audit:

- senior management (for example, deputy ministers or commissioners) of departments or agencies substantially involved in performance audits;
- senior managers of Crown corporations (for example, chief financial officers or presidents) and large departments subject to our financial audits; and
- chief executive officers of the Crown corporations subject to special examinations.

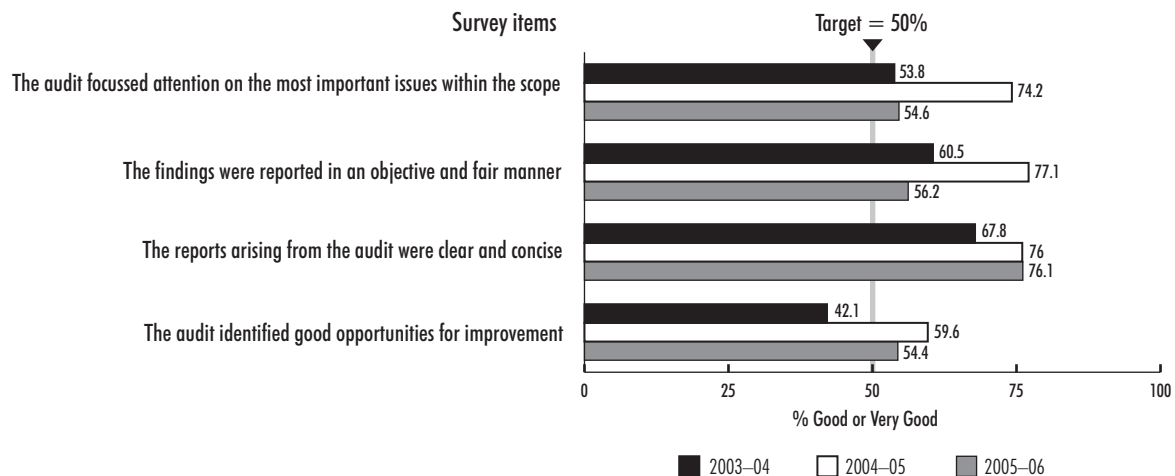
The items studied are the same as those included in the surveys of report users, outlined on page 12. (See endnote 1 on page 58.)

The overall result is that most of the organizations we audit believe that our reports add value.

**Senior management of departments.** Since 2003–04, we have surveyed organizations subject to our performance audits after tabling the applicable report in Parliament (Exhibit 6).

The target for performance audits, established in our *2005–06 Report on Plans and Priorities*, was to have 50 percent of respondents rate our audits as good or very good. The most recent survey responses were above the target for each item. Seventy-six percent of respondents rated our reports arising from the audits as good or very good in being clear and concise. Fifty-four percent rated our audits as good or very good in identifying opportunities for improvement

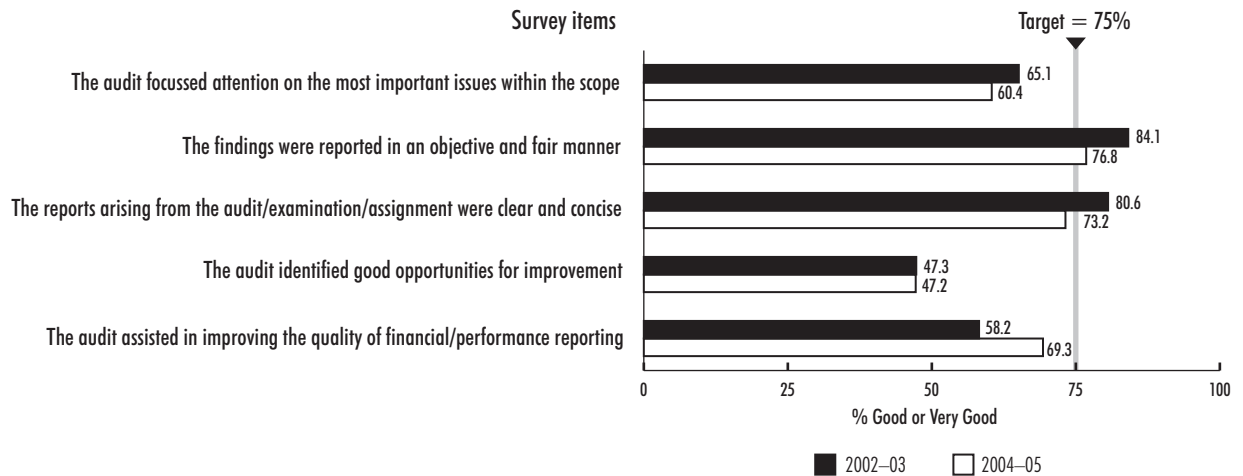
**Exhibit 6—Performance audits add value for senior management**



**Senior managers of Crown corporations and large departments.** In 2004–05, the senior managers of Crown corporations subject to a financial audit found our audits added value to their organizations (Exhibit 7).

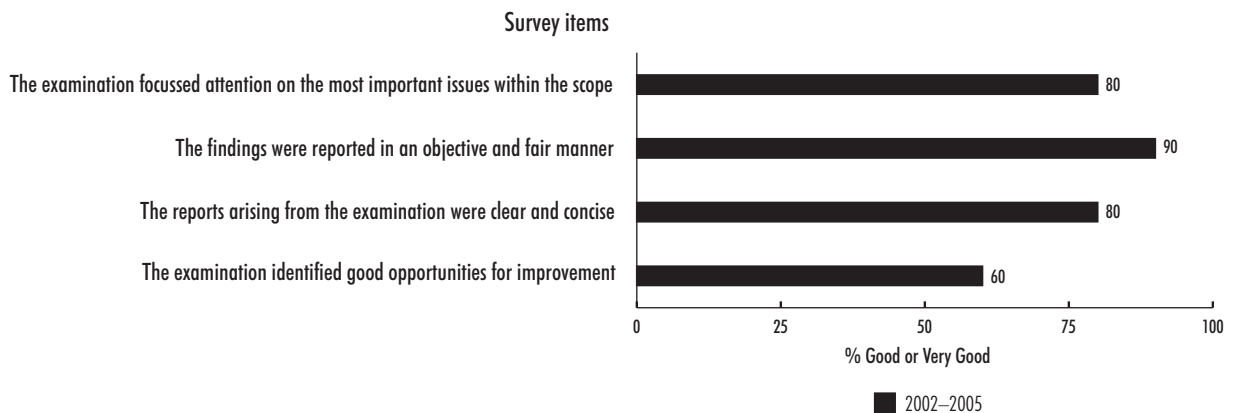
Our target was to have 75 percent of respondents consider that our audits added value (rate them as good or very good). The results were very near the target for two of the five items surveyed, and greater than 60 percent for all but one of the five items.

**Exhibit 7—Financial audits add value for senior managers**



**Chief executive officers of Crown corporations.** We did not establish a target in the *2005–06 Report on Plans and Priorities* for the percentage of audited organizations that consider our special examinations add value. Of the chief executive officers surveyed (Exhibit 8), 90 percent of respondents believed that the Office was good or very good at communicating information in an objective and fair manner. However, only 60 percent of respondents believed that the reports were good or very good at identifying opportunities for improvement.

**Exhibit 8—Special examinations add value for chief executive officers**



## ■ Key users of our reports and the organizations we audit respond to our findings

**Parliament holds the government to account.** We monitor how our work helps Parliament hold the government to account by identifying examples of how Parliament considers issues of accountability, performance, compliance with authorities, and environment and sustainable development in its legislative and oversight work.

The following examples illustrate how our work has contributed to the legislative and oversight work of Parliament.

### **Passport Office—Passport Services (April 2005 Report, Chapter 3)**

**Background.** This chapter reported that the Passport Office (now called Passport Canada) was struggling to meet the demand for services and increasing security expectations. It was unable to fulfill all of its legal responsibilities under the Canadian Passport Order. The audit identified the need for significant improvements in the processes for determining passport entitlement and security measures.

The chapter reported that published service standards for clients had been achieved but noted that increasing costs were not adequately tied to service standards. It also reported that management systems and practices were not sufficient to prepare the organization to meet future challenges.

**Result.** The Public Accounts Committee held a hearing to discuss the audit findings. This hearing led to the *November 2005 Report of the Standing Committee on Public Accounts, Passport Office—Passport Services*. Like our audit, this report made recommendations to Passport Canada. The organization has since produced action plans for both the Office of the Auditor General and the Public Accounts Committee, detailing its progress in meeting those recommendations.

Our Office is currently conducting a follow-up audit at Passport Canada, with a planned reporting date in February 2007.

### **National Security in Canada—The 2001 Anti-Terrorism Initiative: Air Transportation Security, Marine Security, and Emergency Preparedness (April 2005 Report, Chapter 2)**

**Background.** We reported that progress in implementing the government's \$8.4 billion Public Safety Anti-Terrorism initiative had been uneven. Some projects, such as the installation of explosive detection systems to screen air passengers and baggage, and marine security projects and research, were proceeding as planned. Others, however, such as the training of emergency first responders in countering chemical, biological, radiological, or nuclear (CBRN) threats, had made little progress. Transport Canada had poor systems for assessing the performance of the Canadian Air Transport Security Authority (CATSA) and had never assessed its performance. Audit work for this chapter also led to the Auditor General calling Parliament's attention to limitations in Parliament's ability to oversee security programs because of security restrictions on performance information.

**Result.** In May 2005, the Public Accounts Committee held a hearing on our chapter. The committee endorsed our findings and made 14 recommendations to the government. In its response to the committee, the government undertook a range of corrective actions. In particular,

it promised to submit a performance report to the committee by 31 December 2005 on the effectiveness of air transport security systems as it pertains to CATSA. The government also provided the committee with a timetable for increasing the number of first responders trained to respond to CBRN emergencies. The committee called on the government to establish a joint committee of the Senate and House of Commons to deal with security and intelligence matters. The government committed to making every effort to implement its initiative of a National Security Committee of Parliamentarians.

**Climate Change (1998 Report of the Commissioner of the Environment and Sustainable Development (CESD), Chapter 3; 2001 CESD Report, Chapter 6)**

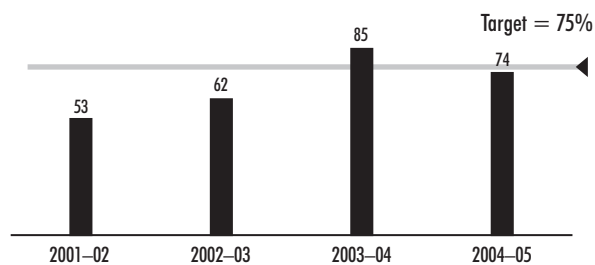
**Background.** The 2001 chapter followed up on issues from our 1998 audit of the federal government’s management of climate change.

**Result.** In May 2005, the Commissioner of the Environment and Sustainable Development testified before the House of Commons Environment and Sustainable Development Committee, as part of a series of hearings on climate change. This was an opportunity to brief the committee on a number of past audits relevant to this subject, especially the 1998 audit and 2001 follow-up audit. The committee’s subsequent report contained 16 different references to our work, covering 6 chapters between 1998 and 2004, and it made a number of recommendations reinforcing messages in those chapters. For example, the committee recommended that a sustainable development strategy covering the entire federal government be developed, in line with a recommendation in the 2002 CESD Report chapter on sustainable development strategies (Chapter 5). This example illustrates how our audits can have an impact long after the reports are tabled in Parliament.

**Parliament endorses our recommendations.** When matters of significance requiring corrective action arise during the conduct of our audits, we bring these matters to the attention of Parliament and the boards of Crown corporations through recommendations contained in our reports.

The Public Accounts Committee reviews many of our reports, but due to time constraints is not able to review all of them. When the committee reviews one of our reports, it may formally endorse our recommendations and request the department or agency to submit an action plan and progress reports on implementing the recommendations in our report. We believe that this indicates a strong endorsement of our work (Exhibit 9).

Exhibit 9—The House of Commons Standing Committee on Public Accounts endorses our recommendations



In its reports, the Public Accounts Committee endorsed 74 percent of our 2004–05 recommendations contained in the reports it reviewed. The target in our 2005–06 *Report on Plans and Priorities* was established as 75 percent. (See endnote 4 on page 59.)

**Organizations implement our recommendations.** Departments and agencies are responsible for taking corrective action and improving their management practices. We monitor their performance in implementing our recommendations, whether or not they have been endorsed by the Public Accounts Committee.

In 2005–06, 44 percent of our performance audit recommendations reported in 2001–02 were fully implemented, and 38 percent were substantially implemented to our satisfaction. (See endnote 5 on page 59.) The percentage of recommendations fully implemented in 2004–05 is similar to previous years (Exhibit 10).

We would like to see this percentage increase over time. We note that the percentage of recommendations substantially implemented by the fourth year, as reported by departments, has been increasing over the past three years.

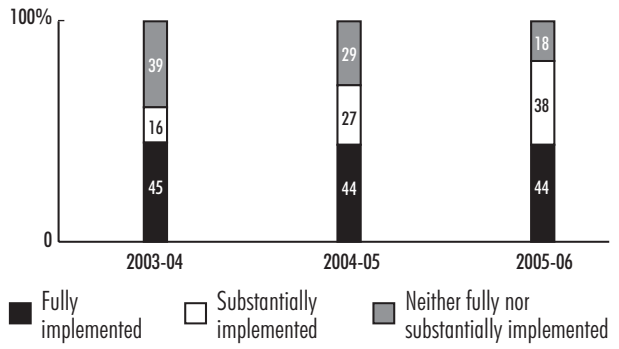
At the beginning of 2005–06, we updated the guidance provided to our performance auditors on making recommendations. The impact of this new approach will not be evident until 2009 when we will report on our 2005 recommendations. This past year, following a recommendation from the Public Accounts Committee, we supported the Treasury Board Secretariat’s review of departmental responses to our recommendations.

In the future, the performance audit recommendations will also include assessments of government-wide recommendations that are directed to specific federal government entities and of recommendations contained in reports of the Commissioner of the Environment and Sustainable Development. Had we applied the new method this year, the following would have been the results for our recommendations:

- fully implemented—42%;
- substantially implemented to our satisfaction—35%; and
- neither fully nor substantially implemented—23%.

**Organizations address qualifications and significant deficiencies.** For our financial audits and special examinations, we monitor the corrective action taken in response to qualifications, significant deficiencies, and other significant matters contained in our reports. Our indicator is the number of qualifications or significant deficiencies that continue from one report to the next. Ideally, this number would be zero. This was the case for our financial audits in 2004–05 and 2005–06 when no qualifications were issued.

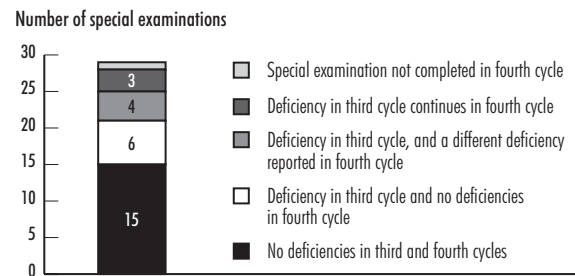
**Exhibit 10—Percentage of performance audit recommendations implemented four years after their publication (unaudited)**





Our current indicator for special examinations is the number of significant deficiencies that continue from the third cycle, already completed, to the fourth cycle, which is still ongoing (Exhibit 11). We conducted 29 special examinations of Crown corporations in the third cycle. In only three instances was there a significant deficiency in the third cycle that continued in the fourth. In the first instance, the corporation involved is not in a position to remove this deficiency unilaterally. In the second instance, the corporation addressed three of the four significant deficiencies we reported six years ago. Management of the corporation has informed us that our outstanding concerns are being addressed. In the third instance, we believe the corporation could do more to identify possible solutions to address the deficiency.

**Exhibit 11—Organizations address significant deficiencies reported in special examinations**



**Departments implement their sustainable development strategies.** Twenty-five departments and agencies were required to table sustainable development strategies for the period 2004 to 2006. Several other organizations, including our Office, table sustainable development strategies voluntarily.

In 1995, section 23 was added to the *Auditor General Act* directing us to monitor and report on the extent to which departments have met the objectives and implemented the plans set out in their sustainable development strategies.

In 2005, we assessed the actions of 13 organizations in implementing 25 commitments from their 2001 and 2004 strategies. These assessments are reported in the following four chapters of the Commissioner’s 2005 Report:

- Chapter 1—commitments related to Canada’s Ocean Management Strategy;
- Chapter 4—commitments related to federal water management and safety of drinking water;
- Chapter 6—commitments related to green procurement; and
- Chapter 7—results of the monitoring of 10 strategy commitments of 9 departments and agencies.

Overall, we found satisfactory progress on 10 of these 25 commitments, and some progress on all but 3 of the rest.

While reporting on implementation rates, we continued to report more broadly on the quality and effectiveness of the sustainable development strategies. In the Commissioner’s 2005 Report, Chapter 7, we reported on the adequacy of government direction on preparing the 2004 sustainable development strategies, and we assessed how well these strategies met selected expectations from the Commissioner’s March 2003 *Sustainable Development Strategies – Making a Difference*. We noted improvement in the quality of the strategies in some areas when comparing the 2001 and 2004 strategies.

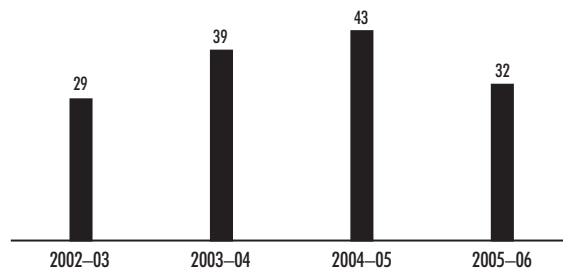
**Departments respond to environmental petitions.** The 1995 amendments to the *Auditor General Act* also require that we monitor and report on environmental petitions received from Canadians. The petitions process allows Canadians to voice their concerns about environmental matters and to address questions to federal ministers and obtain a response.

In 2005–06, the Office received 32 environmental petitions (Exhibit 12). Ministers of federal departments are expected to respond to petitioners within 120 days after the day on which the Minister receives the petition from the Auditor General. They responded on time to 90 percent of the petitions received in 2005–06.

As part of our monitoring role, we audit selected petition responses to assess whether ministers are following through on commitments they make to petitioners. In 2005–06, we conducted audits of petition responses on insurance for nuclear operators, guidelines for listing species at risk, and the impacts of hog farming.

We found that departments are taking action as a result of petitions. For example, in response to our audit of insurance for nuclear operators, Natural Resources Canada agreed to bring forward policy proposals for revisions to the *Nuclear Liability Act* in 2005. In our audit on hog farming, we found that Environment Canada is working to evaluate and improve the effectiveness of its compliance promotion activities.

Exhibit 12—The Commissioner receives petitions each year



## ■ Our quality management framework is operating effectively

Our audit work is guided by a rigorous methodology and quality management framework. External and internal reviews, based on our framework, provide reasonable assurance that our audits are conducted in accordance with established standards of professional practice.

**External reviews.** In 1999, we hired an audit firm to assess our quality management system for annual financial audits. In 2003, an international team of legislative auditors carried out a peer review of the Office’s quality management framework (QMF) for performance auditing. Both reviews found that our frameworks were suitably designed and operating effectively. The review of our QMF for performance auditing highlighted some good practices and made suggestions for improvement. Our action plan to address these suggestions has been completed and is available on our Web site under About Us. We have started planning for the next review of our quality management framework for all of our audits and intend to have the review carried out within the next three years.

In addition, the provincial institutes of chartered accountants review our compliance with professional standards for financial audits and determine whether our training of chartered accounting students meets their requirements. The reviews concluded that we were following professional standards and met their requirements.

**Internal practice reviews.** We conduct practice reviews of our financial audits, special examinations, and performance audits by assessing their quality and compliance with our quality management

frameworks. The frameworks take account of Office policies and professional standards. The reviews assure the Auditor General of the quality of our audits and that they are being conducted in accordance with our quality management frameworks. They also provide managers with suggestions for improvement.

In 2005–06 we reported on eight financial and performance audit practice reviews conducted in 2004–05. The reviews concluded that the audits were conducted in accordance with our quality management frameworks. Suggestions for improvement focussed on the quality reviewer function in both financial and performance audits and the expectations of auditors for analyzing fraud and error in financial audits. As they are completed, we publish summaries of the results of our practice reviews on our Web site under About Us.

**Internal audits.** We also audit our management and administration practices. These audits assure the Auditor General that the Office is complying with government and Office policies. They also provide managers with assessments and recommendations.

In 2005–06, we worked on the second year of our three-year internal audit plan. A summary of our three-year plan is available on our Web site under About Us. In 2005–06, we reported on the internal audit of hospitality expenses. We found that documentation and guidelines needed improvement. In 2005–06, we also began work on the internal audit of the management of the human resources and professional development function. As they are completed, we publish summaries of the results of our internal audits on our Web site under About Us.

## ■ **Our work is delivered on budget and on time**

**On budget.** We set a budget for each of our audits and monitor our actual performance against these budgets. In 2001–02, we also set a goal to reduce our total hours for two of our three major audit subactivities.

Our goal for annual financial audits of Crown corporations, territorial governments, and other organizations was to reduce by 15 percent the total hours required for these audits by 2004–05. The international and Canada Revenue Agency audits as well as the audits added since 2001–02 are excluded from this commitment.

While one territorial audit remains to be completed, the overall 2004–05 reductions from 2001–02 actual hours will be about seven percent. In many cases, the total hours needed for completing audits have been reduced by more than this amount, while for others the required hours have increased significantly.

Overall, the audit work on several Crown corporation and territorial audits continues to be significantly over budget. This is due mainly to the introduction of new accounting and auditing standards and the increasing rate of turnover of audit professionals in our Office.

The Office also set a goal to reduce the total hours required to conduct the fourth cycle of special examinations by 15 to 25 percent by 2005–06. The current cycle is nearing completion, with the two remaining special examinations currently in progress. To date, for the special examinations that have been completed, we have achieved an overall reduction in hours of 10.5 percent.

For the 25 performance audits and related products that we tabled in 2005–06, we exceeded our total budgeted hours by 12 percent. One quarter of the total budget overrun resulted from one audit that had significant changes in the audit team and the organizations being audited, as well as considerable difficulties in confirming the facts contained in the report with departmental personnel. For about half of the performance audits, the budget variance was minor.

Details of the budgeted and actual hours for each of our audits are available upon request.

**On time.** The Office determines when our performance audit reports will be tabled in the House of Commons; thus, there are no statutory deadlines for these reports. For most of our financial audits and for special examinations, there are statutory dates set for the presentation of our reports. We have no significant concerns with meeting our statutory dates for our financial audits (except for some of our work in the northern territories).

We have completed 33 special examinations during the current cycle, and 18 of these reports (55 percent) have been transmitted at least one month after the statutory date. One of our management committees has recently received a report on this situation. Many reasons have been identified for why these reports have not been completed on time, including the following:

- staffing problems within our Office, and
- difficulties in scheduling reviews of our reports by the boards of directors or audit committees.

The management committee is overseeing the development of a set of key principles to be applied in planning special examinations and of an action plan to redress this situation for the next cycle.

We will be further refining our performance measures for “on budget” and “on time” in future performance reports.

## **Other results**

### **Implementing our renewed parliamentary strategy**

To best serve Parliament, we must understand parliamentarians’ needs and interests. We need to clearly explain our role and mandate so that parliamentarians know what they can expect from us. We also need to ensure that parliamentarians understand our work and the issues raised in our reports.

To achieve this result, we renewed the Office’s parliamentary strategy in 2004. For 2005–06, our four specific objectives were to

- communicate our messages clearly to Parliament,
- promote the role and use of the work of the Office of the Auditor General,
- ensure that our work remains relevant and useful to parliamentarians, and
- maintain the Office’s credibility with Parliament.

**Communicating clearly.** Clear communication of our audit findings is essential. This has been particularly important given that the 2004 and 2006 federal elections brought many new members to the House of Commons. To that end, in the fall of 2005, we revised the way that we present the

Main Points of each report. The Main Points are intended to serve as a stand-alone summary of each audit. They summarize what we examined, why it's important, and what we found.

**Promoting our work.** To promote the role and use of the work of the Office, we provide an information kit at regular intervals to parliamentarians. This kit contains, for example, information about our role, how we select the subjects of our audits, and how we ensure quality in our audits. We also make available a document designed to help parliamentarians prepare for their review of the Estimates—the government's expenditure plans and performance reports.

In addition, we write to individual parliamentary committees to signal issues from our audits that may be of interest to them. We provide these letters subsequent to each tabling of a report and at the beginning of a new Parliament.

**Ensuring our work is relevant.** Appearing before parliamentary committees is one of the most effective ways of ensuring that our work remains relevant and useful to parliamentarians. We are available to committees whenever they wish to review government activities or programs that we have audited. We work with committee staff to ensure that our appearance before a committee is useful to its members. In our opening remarks to each committee, we identify the critical elements of each audit. We also consider these hearings an opportunity to learn about the committees' views on matters of interest to them. Their views are taken into consideration in planning our future audits.

**Maintaining our credibility.** Through all of our work, we strive to demonstrate our independence and objectivity—the hallmarks of our credibility. Our risk-based planning approach to selecting performance audits identifies those matters of most significance to Parliament. We conduct our work according to established professional standards and a rigorous internal methodology. Our adherence to these standards and practices is regularly reviewed and the results are made publicly available.

### **Improving our performance audit practice**

In 2005–06, we completed a systematic examination of our performance audit practice. The objective was to identify ways to improve this practice and maintain its credibility. We wanted to be more effective in the way we select, conduct, and report on our performance audits so that our work would have greater impact on improving government.

We began by creating a shared mission statement for our performance audit practice that sets out clearly and succinctly what the Office hopes to accomplish as a result of its performance audits. We also agreed on a simple but important definition of performance auditing: we audit significant matters, and we report what we find. In addition, we developed a list of key characteristics for a successful performance audit.

We identified nine key areas of our performance audit practice requiring amendment and reached decisions on the specific actions required. These areas covered the range of our activities from planning our audits, to fulfilling the various components of our mandate and maintaining good relations with the entities we audit, to communicating our audit findings. The specific actions required are still being finalized for some of these areas. Given the importance of this initiative, the Office's Executive Committee will be monitoring the implementation of these required actions.

## Informing the media and public

Many Canadians learn about our reports through the media; therefore, it is important that the media understand our reports and present them accurately to the public. We analyze our media coverage each year. In 2005–06 we found that our messages were well understood and, with a few exceptions, reported accurately.

Media coverage also stimulates interest in our work by Canadians. We respond to all inquiries that the Office receives. The Auditor General and other senior staff members give speeches and presentations at various public meetings and professional conferences. These efforts help inform Canadians about the work of the Office.

## Providing a respectful workplace

The Office has set four objectives for providing a respectful workplace, each with its own indicators and targets (Exhibit 13):

- Provide a workplace environment where employees are satisfied and engaged.
- Promote a bilingual workplace.
- Assemble a workforce that represents the Canadian population.
- Ensure that qualified, capable employees are available to carry out our mandate.

**Satisfied and engaged employees.** Our target for this objective is to maintain a minimum level of 70 percent employee satisfaction. The Office surveys employees every two years to evaluate its performance and identify opportunities for improvement. An action plan is then developed to address the survey results. The most recent action plan focussed on achieving more effective communication of audit methodology, people management, and internal meetings. We also addressed internal accountability through improved internal management reporting, new staff scheduling tools, and increased delegation. This action plan was completed in 2005–06.

Our 2006 employee survey had a 90 percent response rate, which is well above the 69 percent rate in 2004 and the 65 percent norm for most organizations. The results show a significant increase in overall employee satisfaction from 70 percent in 2004 to 82 percent in 2006. Most employees—92 percent—say they feel proud to work for the Office and consider the Office to be well run and characterized by good clarity of direction and strong support for vision and values. (See endnote 6 on page 60.) A volunteer employee committee is reviewing the survey results. It will focus on activities that the Office should continue in order to maintain this level of satisfaction. The committee will present its recommendations to the Office’s Executive Committee in the fall of 2006.

**A bilingual workforce.** The Office has improved its bilingual capacity in the management group. There was a significant increase from 2004–05 to 2005–06 from 53 percent to 62 percent for assistant auditors general (AAGs) and principals and from 56 percent to 58 percent for directors. Emphasis will continue to be placed on second language training in 2006–07, with our objective for March 2007 being 100 percent for AAGs and principals and 75 percent for directors. A new curriculum is in place to help employees achieve the desired level. (See endnote 7 on page 60.)

**A representative workforce.** In increasing its workforce from the previous year, the Office has been able to maintain its relative levels of representation of the four designated groups. Efforts are still needed to increase representation of visible minorities and Aboriginals.

**A qualified and capable workforce.** The turnover rate has increased significantly in the past year compared with 2004–05. Increased demand in government departments as well as in the private sector for competencies similar to those possessed by our employees has placed significant pressure on the Office’s ability to retain its workforce. Furthermore, a shortage of available people, especially in the accounting field, has significantly increased competition for these scarce resources. The Office is aware of this situation and actively monitors external factors in order to develop a recruitment and retention strategy.

**Exhibit 13—Providing a respectful workplace**

Objective	Indicator	Target	Actual 2003–04	Actual 2005–06
Provide a workplace environment where employees are satisfied and engaged	Percentage of employees who believe that the Office is either an above-average place to work or one of the best places to work	70%	70%	82%
Promote a bilingual workplace	Percentage of employees in bilingual regions who meet our language requirements by March 2007	100% of our assistant auditors general and principals	53%	62%
		75% of our directors	56%	58%
Assemble a workforce that represents the Canadian population	Representation as a percentage of workforce availability for the four designated groups:	100% for each designated group		
	Women		100%	105%
	People with disabilities		94%	108%
	Aboriginal peoples		79%	74%
	Members of visible minorities		75%	68%
Ensure that qualified, capable employees are available to carry out our mandate	Number of entry level positions available annually	20 positions	17 positions	18 positions
	Percentage turnover of audit professionals	10%	9.6%	14.7%

## Section III—Financial Performance

### Summary of operations

#### Parliamentary appropriations

In 2005–06, the Office used \$76.8 million of the \$79.6 million in parliamentary appropriations approved. As a result, the Office lapsed \$2.8 million in 2005–06 (\$3.1 million in 2004–05). The \$79.6 million is comprised of \$71.8 million in Main Estimates and a further \$7.8 million in Governor General Special Warrants (used instead of supplementary estimates when the House of Commons is not in session) and adjustments and transfers. The \$7.8 million was routine in nature, including mainly carry-forward funding (\$3.1 million) and funding for current and retroactive salary increases (\$4.2 million).

Like other government departments and agencies, subject to parliamentary approval, the Office may carry forward lapsed amounts of 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.

#### Cost of operations

In 2005–06, the net cost of operations for the Office was \$85.3 million, as reported in the Statement of Operations in our audited financial statements (page 40). This increase of \$2.9 million (3.5 percent) from 2004–05 is largely due to an increase in salary and benefits of about \$4.2 million, reduced costs for professional services of about \$800,000 and utilities, materials, and supplies of about \$400,000. Refer to financial statements note 7 (page 48).

The increased salary costs are due to annual economic increases, increases to employee benefit plans, and increases in full-time equivalent (FTE) employees. The lower costs for professional services are due to reductions in the use of temporary office services, executive interchanges, legal fees, and translation services. The costs of utilities, materials, and supplies were higher in 2004–05 due to renovations undertaken to accommodate an internal Office reorganization.

#### Full-time equivalents

The Office used 577 full-time equivalent (FTE) employees in 2005–06, which represented 98 percent of our budget of 590 FTEs. This is an increase in FTEs used of 7 from last year. In 2004–05, we used 570 FTEs, representing 98 percent of our budget of 580 FTEs.

As at 31 March 2006, the Office had 609 employees. Employee turnover, part-time work, and the employment of students are the main reasons for the difference between the number of employees and the number of FTEs used over the year.

#### Analysis by subactivity

During 2005–06, the Office

- tabled 18 performance audits and 4 related products of federal departments and agencies. This is lower than usual because the planned tabling of the February 2006 Report was postponed to May 2006 because the House of Commons was not in session as a result of the January 2006 federal election;



- performed more than 100 financial audits, including those of the financial statements of the Government of Canada, Crown corporations, territorial governments, and other organizations;
- completed 11 special examinations of Crown corporations;
- assessed the performance reports of 3 federal government agencies; and
- tabled 3 performance audits relating to the monitoring of sustainable development activities and the environmental petitions process.

The *2005–06 Report on Plans and Priorities* was based on planned spending of \$81.2 million. We have since received parliamentary approval and revised our planned spending (forecast spending) to \$85.2 million in our *2006–07 Report on Plans and Priorities*. Both 2005–06 actual and revised planned spending are presented in table 4—Financial and human resources and subactivities (page 34).

We manage costs at an Office-wide level and at an individual audit level. Audit budgets are established for planned hours and planned costs of work. All direct salary, professional service, travel, and other costs associated with the delivery of individual audits and professional practice projects are charged directly to them. All other Office expenses, including corporate services and 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 level of effort (hours used) on individual audits has the most significant impact on actual costs.

The largest increase in the costs of subactivities was for the performance audits (\$2.2 million), followed by the financial audits of Crown corporations, territorial governments, and other organizations (\$1.5 million), the audit of the summary financial statements of the Government of Canada (\$1.0 million), and professional practices (\$0.3 million). The largest decrease in the costs of subactivities was for the special examinations of Crown corporations (\$1.5 million), followed by sustainable development monitoring activities and environmental petitions (\$0.7 million). These variances between current and prior-year subactivity costs are based on the Statement of Operations in our audited financial statements (page 40).

### Performance audits and studies

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Performance audits and studies	42.6	42.8	40.4

The higher costs for the performance audits and studies are due to increased costs for employee salary and benefits. The overall level of effort during the reporting period was essentially the same as the previous fiscal year. Most of our performance audits are done over two fiscal years. The costs incurred in the reporting period are those of audits published in the fiscal year as well as costs incurred for audits scheduled to be published in future fiscal years. The Office usually publishes 26 to 28 performance audits per year. This year, we postponed the tabling of the reports originally scheduled for February and April 2006 to later dates because the House of Commons was not in session as a result of the January 2006 federal election. However, most of the audit work was completed as planned in 2005–06.

In addition to our audit chapters, the performance audits and studies subactivity includes other types of work that required less time than last year. For example, our involvement with the Gomery Commission required significantly fewer resources than the previous year. In addition, this year we were not required to provide an opinion on the health indicator reports prepared every two years by the federal government and the three territorial governments.

### **Financial audits of Crown corporations, territorial governments, and other organizations**

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Financial audits—Crown corporations, territorial governments, and other organizations	23.5	23.0	22.0

Overall in 2005–06, the level of effort required to complete the financial audits has remained fairly constant but the costs have increased slightly (\$1.5 million), mostly due to increased costs for employee salary and benefits.

**Crown corporations.** The time required to complete the audits of Crown corporations increased from the previous year. The increases were due to significant turnover among the audit professionals and to the impact of the new accounting requirements that require some entities we audit to increase their reporting and disclosure and give us additional responsibilities as auditors. Most of the additional time was required on a few of the larger and more complex Crown corporation audits that are most affected by the new accounting and auditing standards.

Some of the new and revised accounting standards that have an impact on our work include hedging relationships, employee future benefits, decommissioning liability, changes in accounting estimates, and accounting for asset retirement obligations and for financial instruments.

**Other corporations and organizations.** The level of effort required to complete the audits of other corporations and organizations decreased significantly, in particular, our audit of the financial statements of the Canada Revenue Agency because of efficiencies gained in using our new audit methodology and tools. For the remaining audits, the level of effort was about the same as last year, even though we began work on the first audits of the financial statements of two new entities—the National Research Council and the Public Service Commission, which required more audit effort than originally planned.

**Territorial organizations.** We have achieved some of the planned reductions in the costs of our territorial audits this year. We continue to look for efficiencies in these audits through the use of our new audit methodology and tools.

**International organizations.** In 2005–06, the cost of these financial audits increased largely due to the cyclical nature of the UNESCO biennial audit. 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). These audits are done on a cost recovery basis.

## Audit of the summary financial statements of the Government of Canada

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Audit of the summary financial statements of the Government of Canada	4.8	5.7	3.8

Our approach for the audit of the summary financial statements of the Government of Canada has allowed us to decrease the overall costs of this audit in recent years. This year, however, the time required to complete the audit work was higher because of the first-time audit work on a number of entities, such as the Canada Border Services Agency. In addition, we were successful in undertaking some audit work, for the 31 March 2006 year end, earlier than usual for several of our audit entities.

We were able to invest significantly more time on work related to the assessment of financial controls in departmental and management information systems than last year. Although we have not been as successful in completing all of the planned work, we will continue to dedicate resources in advancing and completing this audit work.

### Special examinations of Crown corporations

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Special examinations of Crown corporations	4.6	3.3	6.1

Each year, the total cost of conducting special examinations of Crown corporations varies depending on the number of examinations under way; the nature, size, and complexity; and the risk levels of the corporations being examined. As part of the five-year audit cycle, there are cyclical peaks and valleys. In 2005–06, this resulted in a planned decrease in the workload. However, the total cost for the special examination subactivity was higher than expected because most of the special examinations required more time than planned. This was due to a variety of reasons, including a few first-time special examinations, significant turnover among the audit professionals, and issues being more complex than anticipated.

In 2005–06, we worked on 14 special examinations of which 11 were completed, compared with the 20 we worked on in 2004–05 of which 9 were completed.

### Sustainable development monitoring activities and environmental petitions

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Sustainable development monitoring activities and environmental petitions	2.4	3.0	3.1

This work includes auditing sustainable development strategies, co-ordinating the petitions process, monitoring departmental responses, and auditing actions taken by departments to fulfill commitments

made in petition responses. The results of this work is reported each year in the Report of the Commissioner of the Environment and Sustainable Development. The cost of this subactivity is significantly lower (\$0.7 million) than last year because a portion of the audit work was strategically integrated into the other performance audits conducted by the Commissioner.

### Assessments of agency performance reports

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Assessment of agency performance reports	1.1	1.2	1.1

The cost and level of effort required to complete this audit work is the same as last year. The Office is required under legislation to assess the fairness and reliability of performance information included in the annual reports of three government agencies—the Canadian Food Inspection Agency, Canada Revenue Agency, and Parks Canada Agency.

### Professional practices

(\$ millions)	2005–06		2004–05
	Actual costs	Budget	Actual costs
Professional practices	7.4	7.2	7.1

In 2005–06, our costs in this area increased (\$0.3 million) compared with 2004–05. Note 8 of the audited financial statements (page 48) provides a comparative breakdown of expenses by type for 2005–06 and 2004–05. Part of this increase is explained by higher salary costs but is also related to other factors:

- In 2005–06, we developed or updated several methodology guides. Although our level of effort increased compared with last year, some of the work on planned projects was deferred due to other priorities.
- The cost of international activities is higher as a result of an increased investment in knowledge sharing and capacity building efforts with audit offices in other countries and an increased level of effort in the Organization for Economic Co-operation and Development Board of Auditors.

The cost of External Review decreased because our participation in the performance audit practice peer review of other legislative audit offices in 2005–06 was significantly reduced.

## Financial tables

Table 1—Comparison of planned to actual spending (including full-time equivalents)						
(\$ millions)	2003–04	2004–05	2005–06			
	Actual	Actual	Main Estimates	Planned spending	Total authorities	Actual
<b>Legislative auditing</b>	71.8	72.0	71.8	71.8	79.6	76.8
Less: Non-respendable revenue <sup>1</sup>	(0.9)	(1.1)	(0.7)	(0.7)	(1.1)	(1.1)
Plus: Cost of services provided without charge by other government departments	8.8	10.1	10.1	10.1	9.9	9.9
<b>Net cost of program<sup>2</sup></b>	<b>79.7</b>	<b>81.0</b>	<b>81.2</b>	<b>81.2</b>	<b>88.4</b>	<b>85.6</b>
<b>Full-time equivalents</b>	<b>558</b>	<b>570</b>		<b>590</b>		<b>577</b>

<sup>1</sup> The Office charges fees to recover direct costs for the audits of the International Civil Aviation Organization (ICAO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO). These fees represent the major source of non-respendable revenue. The funds are not used by the Office but are returned to the Consolidated Revenue Fund as non-respendable revenue.

<sup>2</sup> The net cost of operations reported in our audited financial statements, prepared in accordance with Canadian generally accepted accounting principles (GAAP), is \$85.3 million, or \$0.3 million less than the actual spending reported above. Accounting for capital assets and employee benefits account for the difference.

Table 2—Voted and statutory appropriations					
(\$ millions)		2005–06			
Vote or statutory item	Vote or statutory wording	Main Estimates	Planned spending	Total authorities <sup>2</sup>	Actual
20	Program expenditures <sup>1</sup>	63.0	63.0	70.2	67.4
(S)	Contributions to employee benefit plans	8.8	8.8	9.4	9.4
	<b>Total — Legislative auditing</b>	<b>71.8</b>	<b>71.8</b>	<b>79.6</b>	<b>76.8</b>

<sup>1</sup> Program expenditures include a contribution of \$380,000 made to the CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation). The Office also provides a staff member under secondment to the CCAF-FCVI Inc. for which we recover partial costs.

<sup>2</sup> The difference between Main Estimates and total authorities represents Governor General Special Warrants, adjustments, and transfers.

Table 3—Net cost of program		
(\$ millions)	2004–05	2005–06
Total actual spending	72.0	76.8
Plus: Services provided without charge by other government departments		
Accommodation provided by Public Works and Government Services Canada	6.6	6.6
Contributions covering employers' share of employees' insurance premiums and expenditures paid by the Treasury Board Secretariat	3.5	3.3
Less: Non-respendable revenue	(1.1)	(1.1)
<b>Net cost of program</b>	<b>81.0</b>	<b>85.6</b>

Table 4—Financial and human resources and subactivities

<b>Financial resources (\$ millions) 2005–06</b>		
Forecast spending	Total authorities	Actual spending
\$85.2	\$88.4	\$85.6
<b>Human resources (full-time equivalents) 2005–06</b>		
Planned	Actual	Difference
590	577	13
<b>Program activity: Legislative auditing (\$ millions)</b>		
Subactivities <sup>1</sup>	Forecast spending 2005–06	Actual spending 2005–06
Performance audits and studies	\$42.8	\$42.6
Financial audits of Crown corporations, territorial governments, and other organizations	23.0	23.5
Audit of the summary financial statements of the Government of Canada	5.7	4.8
Special examinations of Crown corporations	3.3	4.6
Sustainable development monitoring activities and environmental petitions	3.0	2.4
Assessments of agency performance reports	1.2	1.1
Professional practices	7.2	7.4
<b>Sub-total</b>	<b>86.2</b>	<b>86.4</b>
Less: Non-respendable revenue	(1.0)	(1.1)
<b>Net cost of operations reported in our financial statements</b>		<b>85.3</b>
Differences due to accrual accounting (GAAP) <sup>2</sup>		0.3
<b>Net cost of program</b>	<b>\$85.2</b>	<b>\$85.6</b>

<sup>1</sup> We have allocated the cost of audit services to each subactivity.

<sup>2</sup> The net cost of operations reported in our audited financial statements, prepared in accordance with generally accepted accounting principles (GAAP), is \$85.3 million, or \$0.3 million less than the net cost of program. Accounting for capital assets and employee benefits accounts for the difference.

**Table 5—Contingent liabilities**

(\$ millions)	Amount of contingent liability		
	31 March 2004	31 March 2005	Current as of 31 March 2006
<b>List of contingent liabilities</b>			
Claims, pending, and threatened litigation	–	–	–
Litigations <sup>1</sup>	5.4	5.5	5.7
<b>Total</b>	<b>5.4</b>	<b>5.5</b>	<b>5.7</b>

<sup>1</sup> Refer to note 9 of the financial statements for further explanation.

**Table 6—Contracts for professional services (2005)**

	Original contracts for fees of less than \$25,000 <sup>1</sup>			Original contracts for fees of \$25,000 or more <sup>1</sup>		
	(\$ thousands)	Number	Percentage	(\$ thousands)	Number	Percentage
Competitive contracts	90	4	2	668	13	87
Non-competitive contracts	4,654	521	98	100	1	13
<b>Total</b>	<b>4,744</b>	<b>525</b>	<b>100</b>	<b>768</b>	<b>14</b>	<b>100</b>

<sup>1</sup>Fees only, excluding GST and expenses.

All contracts for professional services and procurement of goods and other services awarded by the Office with values over \$9,346 without the GST (equivalent to \$10,000 with GST) are reported on our Web site.

Table 6 highlights the Office's contracting activity for professional services in calendar year 2005. 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.

In 2005, the majority of contracts were awarded by the Office on a non-competitive basis. Eighty percent of these contracts had original values of \$15,000 or less. We awarded one contract for \$100,000 on a non-competitive basis for legal representation.

**Table 7—Travel and hospitality expenses**

Disclosure of the travel and hospitality expenses for the Auditor General, the Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, and the assistant auditors general is available on our Web site under About Us. The Office follows the Treasury Board Travel Directive, rates, and allowances, and the Treasury Board Hospitality Policy.

**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	2005–06			Performance pay (\$)	Automobile <sup>2</sup> (\$)	Club membership <sup>3</sup> (\$)	Total (\$)
	FTEs <sup>1</sup>	Salary (\$)	Bilingual bonus (\$)				
Auditor General	1	266,800 <sup>4</sup>			2,726	565	270,091
Deputy Auditor General	1	187,715–224,700		0–16,300			187,715–241,000
Assistant auditors general and Commissioner of the Environment and Sustainable Development	12	133,485–176,625		0–16,300		565	133,485–193,490
Senior principals	4	106,360–154,090		0–14,000			106,360–168,090
Principals	53	106,360–137,180		0–13,250			106,360–150,430
Directors	101	83,000–110,070		0–10,500			83,000–120,570
Auditors	226	38,218–92,160	800	0–3,000			38,218–95,960
Audit service officers	72	50,604–91,599	800				50,604–92,399
Audit service specialists	107	31,639–60,327	800				31,639–61,127
	577						

<sup>1</sup> Full-time equivalents (FTEs) utilized in the fiscal year 2005–06.

<sup>2</sup> Taxable benefit for the personal use of an automobile for the 2005 calendar year.

<sup>3</sup> The Office pays a club membership for the Auditor General and the Commissioner of the Environment and Sustainable Development.

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

**Table 9—Office memberships<sup>1</sup> and contribution**

(\$ thousands)	2005–06
CCAF-FCVI Inc.	380.0
Conference Board of Canada	14.3
Association of Professional Executives of the Public Service of Canada	8.5
Head of Federal Agencies Secretariat	6.0
Public Policy Forum	5.5
International Organization of Supreme Audit Institutions (INTOSAI)	3.6

<sup>1</sup> The Office participates and supports professional organizations related to its legislative auditing program. The Office also pays individual employee membership fees to a variety of professional organizations.



# 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 *2005–06 Performance Report*. These 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 this 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 the Office's internal controls and the accounting policies 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.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
23 June 2006

Robert D'Aoust, CA  
Comptroller and  
Senior Financial Officer

## 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 2006 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 2006 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 and  
Lévesque Marchand S.E.N.C.  
Chartered Accountants

Ottawa, Canada  
23 June 2006

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

	2006	2005
<b>Assets</b>	(in thousands of dollars)	
<b>Current assets</b>		
Due from the Consolidated Revenue Fund	5,161	5,890
Accounts receivable	1,532	1,529
Prepaid expenses	418	167
	7,111	7,586
<b>Capital assets (note 4)</b>	5,763	6,158
	12,874	13,744
<b>Liabilities and Deficit</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Due to employees	2,761	4,521
Due to others	2,912	2,931
Vacation pay	2,846	2,718
Current portion of employee future benefits	2,863	2,902
	11,382	13,072
<b>Employee future benefits (note 5)</b>	10,196	9,631
<b>Deficit (note 6)</b>	( 8,704 )	( 8,959 )
	12,874	13,744

Contingencies (note 9)

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

Approved by

Sheila Fraser, FCA  
Auditor General of Canada

Robert D'Aoust, CA  
Comptroller and  
Senior Financial Officer

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

	2006	2005
<b>Expenses (note 7)</b>	<b>(in thousands of dollars)</b>	
Performance audits and studies	42,572	40,428
Financial audits of Crown corporations, territorial governments, and other organizations	23,542	21,944
Audit of the summary financial statements of the Government of Canada	4,797	3,768
Special examinations of Crown corporations	4,588	6,142
Monitoring sustainable development activities and the environmental petitions process	2,449	3,055
Assessments of agency performance reports	1,138	1,146
Total cost of audits	79,086	76,483
Professional practices (note 8)	7,365	7,077
<b>Total cost of operations</b>	<b>86,451</b>	<b>83,560</b>
<b>Costs recovered</b>		
International audits	901	754
Other	212	308
<b>Total costs recovered</b>	<b>1,113</b>	<b>1,062</b>
<b>Net cost of operations</b>	<b>85,338</b>	<b>82,498</b>

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

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

	2006	2005
	(in thousands of dollars)	
Deficit, beginning balance	( 8,959 )	( 7,472 )
Total cost of operations	( 86,451 )	( 83,560 )
Parliamentary appropriations used (note 3)	76,798	71,964
Services provided without charge by other government departments (note 7)	9,908	10,109
<b>Deficit, ending balance</b>	<b>( 8,704 )</b>	<b>( 8,959 )</b>

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

	2006	2005
<b>Operating activities</b>	(in thousands of dollars)	
Cash payments	( 77,767 )	( 74,026 )
Cash receipts	1,074	1,333
Parliamentary appropriations used (note 3)	76,798	71,964
<b>Cash (used in) provided from operating activities</b>	105	( 729 )
<b>Investing activities</b>		
Capital asset acquisitions	( 837 )	( 467 )
Proceeds from the disposal of capital assets	3	10
<b>Cash used in investing activities</b>	( 834 )	( 457 )
<b>Increase (Decrease) in Due from the Consolidated Revenue Fund during the year</b>	( 729 )	( 1,186 )
<b>Due from the Consolidated Revenue Fund, beginning of year</b>	5,890	7,076
<b>Due from the Consolidated Revenue Fund, end of year</b>	5,161	5,890

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 2006

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

The program activity of the Office of the Auditor General of Canada is legislative auditing and consists of performance audits and studies of departments and agencies; 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, and is a separate agency for the purposes of Schedule V.

**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. Other costs recovered represent adjustments to prior year's payables and refund of prior years' expenses.

**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 the development of software used internally including software licences, 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:

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

### f) Vacation pay

Vacation pay is expensed as benefits accrue to employees under their respective terms of employment using the employees' salary levels at year end. Vacation pay liabilities represent obligations of the Office that are funded through parliamentary appropriations.

### g) Employee future benefits

#### i) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Office's contributions are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Office's contributions are expensed during the year in which the services are rendered and represent its total pension obligation. The Office is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

#### ii) Severance benefits

Employees are entitled to severance benefits, as provided for under their respective terms of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determined the accrued benefit obligation using the employees' salary at year end. Severance benefits are funded through appropriations once employees' departures are confirmed.



### **h) 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.

### **i) 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.

### **j) Measurement uncertainty**

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 appropriations used for the year. These differences are reconciled as follows:

### **a) Reconciliation of net cost of operations to current year appropriations used**

	2006	2005
	(in thousands of dollars)	
<b>Net cost of operations</b>	85,338	82,498
Less: Expenses not requiring the use of appropriations		
Amortization of capital assets	( 1,232 )	( 1,440 )
Services provided without charge by other government departments	( 9,908 )	(10,109 )
Add: Costs recovered	1,113	1,062
	75,311	72,011
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations	650	( 514 )
Current year appropriations applied to operations	75,961	71,497
Capital asset acquisitions funded by appropriations	837	467
Current year appropriations used	76,798	71,964

**b) Reconciliation of appropriations provided to current year appropriations used**

	2006	2005
<b>Appropriations:</b>	(in thousands of dollars)	
Voted—operating expenditures	70,223	66,679
Statutory contributions to employee benefit plans	9,417	8,406
Proceeds from disposal of capital assets	3	10
Current year appropriations provided	79,643	75,095
Less: Lapsed appropriations <sup>1</sup>	2,845	3,131
Current year appropriations used	76,798	71,964

<sup>1</sup>Subject to parliamentary approval, organizations can carry forward into the next fiscal year up to 5 percent of their operating budgets (based on Main Estimates program expenditures). In 2005–06, this amount is \$3.1 million (\$3.1 million in 2004–05) for the Office.

**4. Capital assets**  
(in thousands of dollars)

	2006			2005	
	Cost		Accumulated amortization	Net book value	Net book value
	Opening balance	Net additions (disposals)			
Furniture and fixtures	4,333	12	1,783	2,562	3,169
Leasehold improvements	2,516	135	741	1,910	2,028
Informatics software	3,376	543	2,983	936	448
Informatics hardware and infrastructure	1,542	36	1,376	202	175
Office equipment	1,105	( 62 )	893	150	330
Motor vehicle	24		21	3	8
	12,896	664	7,797	5,763	6,158

Amortization expense for the year ended 31 March 2006 is \$1.23 million (\$1.44 million in 2005).

## 5. Employee future benefits

(in thousands of dollars)

### a) Pension benefits

The Office and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Office's and employees' contributions represent the total pension obligation to the Public Service Pension Plan, and are as follows:

	2006	2005
Office's contributions	7,015	6,161
Employees' contributions	2,663	2,387

### b) Severance benefits

The Office provides severance benefits to its employees based on years of service and salary at termination of employment. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the plan, measured as at 31 March, is as follows:

	2006	2005
Severance benefit obligation, beginning of year	12,533	12,499
Expense for the year	1,062	865
Benefits paid during the year	( 536 )	( 831 )
Severance benefit obligation, end of year	13,059	12,533

## 6. Deficit

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

## 7. Summary of expenses by major classification

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

	2006	2005
	(in thousands of dollars)	
Salaries and employee benefits	64,288	60,130
Professional services	7,454	8,267
Office accommodation	6,591	6,572
Travel and communication	3,956	3,774
Informatics, informatics maintenance, and repairs, office equipment, and furniture and fixtures	2,517	2,740
Utilities, materials and supplies, and other payments	740	1,122
Printing and publications services	526	576
Contribution to the CCAF-FCVI Inc.	379	379
<b>Total cost of operations</b>	<b>86,451</b>	<b>83,560</b>

In 2006, the total cost of operations included services provided without charge by other government departments totalling \$9.91 million (\$10.11 million in 2005). This is composed of \$6.59 million (\$6.57 million in 2005) for accommodation and \$3.32 million (\$3.54 million in 2005) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan.

## 8. Professional practices

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.

	2006	2005
	(in thousands of dollars)	
International activities	3,436	2,990
Methodology and knowledge management	2,481	2,064
Canadian Council of Legislative Auditors	569	567
Contribution to the CCAF-FCVI Inc.	379	379
Participation in standard-setting activities	370	416
External review	130	661
<b>Professional practices</b>	<b>7,365</b>	<b>7,077</b>

## 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 Alliance requests that the Treasury Board of Canada Secretariat 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 \$5.65 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 2006, the Office incurred expenses of \$21.44 million (\$22.37 million in 2005) and recovered expenses of \$1.89 million (\$3.47 million in 2005) from transactions in the normal course of business with other government departments, agencies, and Crown corporations. These expenses include services provided without charge of \$9.91 million (\$10.11 million in 2005) as described in note 7.

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

	2006	2005
	(in thousands of dollars)	
Accounts receivable	803	1,261
Accounts payable	709	116

## 11. Financial instruments

The fair value of Due from the Consolidated Revenue Fund, accounts receivable, and accounts payable approximates their respective book values due to their short term to maturity.

## 12. Comparative figures

Certain 2004–05 comparative figures have been reclassified to conform to the presentation adopted in 2005–06.

## Section IV—Supplementary information

### Summary of progress on our sustainable development strategy work

#### 1. Departments we audit integrate environmental and sustainable development considerations in decision making.

<b>Objective:</b> Reinforce due regard to the environmental effects of expenditures in our performance audit practice		
<b>Actions</b>	<b>Target completion date</b>	<b>Achieved</b>
Develop audit guidance and a structured approach to enable auditors to examine whether departments gave due regard to environmental effects of expenditures: <ul style="list-style-type: none"> <li>A draft 4<sup>th</sup> E Practice Guide containing checklists and tools was developed.</li> </ul>	December 2003	Yes
Have audit guidance and tools approved by the Practice Development Committee (PDC), pilot them, and make adjustments accordingly. <ul style="list-style-type: none"> <li>The pilot phase was completed for the draft 4<sup>th</sup> E Practice Guide.</li> </ul>	September 2005	Yes
Apply audit guidance and tools in general practice <ul style="list-style-type: none"> <li>The revised 4<sup>th</sup> E Practice Guide received final approval from PDC December 2005. It was informally distributed by the functional responsibility leader (FRL)-Environment and formally launched in early 2006.</li> <li>Necessary adjustments to the Performance Audit Manual were also approved.</li> <li>A new training course offered in 2005 emphasizes integration of the 4<sup>th</sup> E and new practice guide.</li> </ul>	December 2005	Yes
Report annually to Parliament on instances where departments did not give due regard to environmental effects of expenditures: <ul style="list-style-type: none"> <li>Ongoing</li> </ul>	December 2006	Yes

<b>Objective:</b> Apply a more structured approach to considering environmental risks in our audit planning		
<b>Actions</b>	<b>Target completion date</b>	<b>Achieved</b>
Develop and apply a standardized approach to identifying environmental risks in all one-pass plans: <ul style="list-style-type: none"> <li>4<sup>th</sup> E Practice Guide (see above)</li> </ul>	September 2005	Yes
For one-pass plans completed before September 2005, determine if the environmental risks were considered and update plans where appropriate: <ul style="list-style-type: none"> <li>The significance of environmental risks for entities and functional areas is factored into decisions regarding timing of future one-pass plans.</li> </ul>	December 2005	Partly

**2. Departments produce meaningful sustainable development strategies and implement them (including enhancing our coverage and approach to monitoring strategies by involving audit teams outside the Commissioner’s group).**

<b>Objective:</b> Promote better departmental sustainable development strategies		
<b>Actions</b>	<b>Target completion date</b>	<b>Achieved</b>
<p>Create a publicly accessible database of 2003–06 strategy commitments:</p> <ul style="list-style-type: none"> <li>• Subsequent to making this commitment, the Office concluded that the responsibility for this lies more appropriately with the government.</li> <li>• The 2005 Report of the Commissioner of the Environment and Sustainable Development (CESD) recommended that the government develop a means for easy public access to the sustainable development strategies.</li> </ul>	October 2004	Superseded
<p>Engage non-CESD audit teams to assess the quality of commitments</p> <ul style="list-style-type: none"> <li>• The Commissioner focusses on quality assessment. Reporting began in 2004 with all audit teams fully engaged in monitoring implementation of commitments within one year.</li> </ul> <p>Report through the Commissioner’s reports and database:</p> <ul style="list-style-type: none"> <li>• The 2005 Commissioner’s Report, Chapter 7, assesses overall quality of departmental sustainable development strategies.</li> </ul>	December 2005	Yes
<p>Beginning in 2004, engage non-CESD audit teams in monitoring progress of meaningful strategy commitments:</p> <ul style="list-style-type: none"> <li>• A pilot project was started to engage entity teams; approval was received in fall 2005 to proceed with annual monitoring of commitments.</li> </ul> <p>Report through Commissioner’s reports and database:</p> <ul style="list-style-type: none"> <li>• Entity progress was reported in the 2005 Commissioner’s Report, Chapter 7; a table of specific commitments audited is on the Office’s Web site.</li> </ul>		Yes
<p>Post an independent assessment of the OAG sustainable development strategy on the database:</p> <ul style="list-style-type: none"> <li>• An assessment was completed in 2006 and is available on the OAG Web site.</li> </ul>	December 2005	Yes

### 3. Our clients and stakeholders have a better understanding of sustainable development and our role and work.

Objective: Promote awareness of our role and work		
Actions	Target completion date	Achieved
<p>Increase the number of environmental presentations we deliver to our domestic clients and stakeholders:</p> <ul style="list-style-type: none"> <li>The Commissioner's group gave 25 presentations in 2003 (calendar year), 15 in 2004, and 29 in 2005.</li> </ul>	2004	Yes
<p>Implement the Colloquium project:</p> <ul style="list-style-type: none"> <li>The project was implemented for 2004–05.</li> <li>The project was subsequently discontinued due to insufficient interest and the emergence of a University of Ottawa series aimed at the same objective.</li> </ul>	2004	Superseded
<p>Prepare expectations for the 2006–09 sustainable development strategies:</p> <ul style="list-style-type: none"> <li>CESD no longer issues expectations.</li> <li>Environment Canada has assumed the responsibility for this on behalf of the federal government.</li> </ul>	December 2005	Superseded
<p>Increase the following indicators by the fourth quarter of 2006:</p> <ul style="list-style-type: none"> <li>Number of parliamentarians aware of the Commissioner's work (we did not conduct a survey of parliamentarians in 2005 as planned due to the federal election)</li> <li>Number of parliamentary hearings testifying on environmental issues — 2003: 5; 2004: 5; 2005: 6</li> <li>Number of environmental petitions received — 2003–04: 39; 2004–05: 43; 2005–06: 32</li> <li>Number of public inquiries received — 2003: 209; 2004: 185; 2005: 145</li> <li>Number of media references to the Commissioner or the Office — 2003: not available; 2004: 398; 2005: 433</li> </ul>	October 2006	Partly

### 4. There is progress on a federal plan to implement the Johannesburg Plan of Implementation in Canada.

Objective: Promote implementation of the federal government's international commitments		
Actions	Target completion date	Achieved
<p>Monitor federal government's actions toward implementing the Johannesburg Plan of Implementation and report to Parliament:</p> <ul style="list-style-type: none"> <li>The absence of measurable actions was mentioned in the 2004 CESD Report, and failure to act was again noted in the 2005 CESD Report.</li> <li>Specific Johannesburg commitments were audited and reported in the 2005 CESD Report, Chapter 7.</li> </ul>	2004	Yes



## Reporting to the Public Service Commission

The Auditor General has received the staffing authorities of the Public Service Commission directly through the *Auditor General Act*. Since the Commission must report annually to Parliament for the previous fiscal year on matters under its jurisdiction, the Office of the Auditor General should also report annually on its staffing.

Exhibit 14 takes into account the Public Service Commission’s Staffing Management Accountability Framework. It summarizes the five areas of accountability and identifies the indicators present in the Office. The framework is intended to ensure a values-based staffing system through which the principles of merit and non-partisanship are applied in accordance with the core values of fairness, transparency, and access.

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### Exhibit 14—Staffing: Areas of accountability and indicators

**Governance:** The process of exercising authority and establishing a well-defined structure and administration in order to support the achievement of desired results.

1. Roles and responsibilities in staffing are clearly defined.	<ul style="list-style-type: none"> <li>The Executive Committee approved a written delegation of authority for human resources management in 2005–06.</li> </ul>
2. The Office is resourced to deliver on its staffing priorities.	<ul style="list-style-type: none"> <li>There were about 179 staffing actions in 2005–06. Two staffing officers plus an assistant met the demands. A benchmarking exercise supported the belief that these resources are sufficient.</li> </ul>
3. The Office has implemented practices that ensure continuous learning on the subject of staffing.	<ul style="list-style-type: none"> <li>The staffing officers, who must participate in a minimum of 20 hours per year of learning, have taken available training on staffing, both internally and externally.</li> <li>New appointees to the Management Group (directors and principals) are required to attend a full-day transition session. Issues discussed include human resources (HR) responsibilities and staffing.</li> </ul>
4. A structure and/or mechanisms are in place to facilitate decision making by senior management on staffing issues, and enable the collaboration of all stakeholders, including bargaining agents.	<ul style="list-style-type: none"> <li>The Human Resources Committee is tasked with addressing HR issues, such as the Office’s promotional processes. Two members of this committee are nominated by the union.</li> <li>A more senior committee, the Executive Working Group on Human Resources, is tasked with overseeing larger human resource issues such as HR policies and staffing strategies. This committee is composed of five assistant auditors general (AAG).</li> <li>The full Executive Committee regularly addresses issues of staffing, rotation, and succession planning.</li> </ul>

**Planning:** In a staffing environment, planning is defined as a process that identifies current and future staffing needs for an organization to achieve its goals.

<p>1. Senior management gives clear direction and sets priorities that enable values-based staffing.</p>	<ul style="list-style-type: none"> <li>Staffing needs are assessed annually by the Deputy Auditor General and the assistant auditors general. Based on these needs, and the Office's budget, full-time equivalent positions (FTEs) are allocated to each AAG. The AAGs are then accountable, with the help of Human Resources, to staff these FTEs as necessary.</li> </ul>
<p>2. Human resources planning, integrated with business planning, enables the organization to identify its current and future human resource needs.</p>	<ul style="list-style-type: none"> <li>In 2006–07, under the direction of the Executive Committee, Human Resources will be preparing an integrated multi-year recruitment and retention strategy. The strategy will include an analysis of internal and external business issues that will have an impact on the availability and assigning of resources.</li> </ul>
<p>3. Staffing is consistent with human resources planning and variances can be explained.</p>	<ul style="list-style-type: none"> <li>Each group within the Office has a budgeted FTE count. The Assistant Auditor General for each group is responsible for ensuring that this FTE count is fully used and not exceeded. The AAG is held accountable by the Auditor General for being over or under this level.</li> </ul>

**Policy:** Appointment decisions must first and foremost adhere to the new *Public Service Employment Act* and other pertinent statutory instruments, including the *Canadian Charter of Rights and Freedoms*, *Canadian Human Rights Act*, *Official Languages Act*, and *Employment Equity Act*.

<p>1. The Office implements and maintains policies that help it address significant issues in its appointment processes.</p>	<ul style="list-style-type: none"> <li>Office practices and procedures conform to all pertinent statutory instruments. In 2006–07 such practices and procedures will be formally documented.</li> <li>For 2005–06, all of our indeterminate appointments were completed using a competitive process.</li> <li>During the same period, 74 percent of indeterminate appointments were open to the public.</li> </ul>
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**Communication:** Communication ensures the integrity of the appointment process by being transparent, easy to understand, timely, and accessible, and by including the relevant stakeholders.

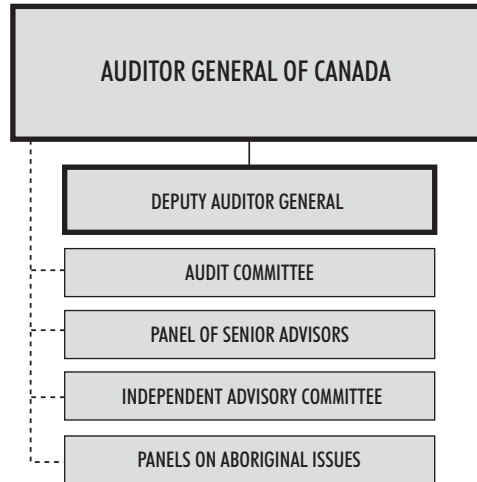
<p>1. Stakeholders have access to timely staffing information, including information about staffing strategies and decisions.</p>	<ul style="list-style-type: none"> <li>All competitions are advertised in both languages internally. Competitions open to people outside the Office are advertised on our Web Career page and, in December 2005, were advertised in newspapers across Canada.</li> <li>The multi-year recruitment and retention strategy will be available on the Intranet.</li> </ul>
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**Control:** In a staffing context, control means the ongoing monitoring of information, the assessment of actual performance in relation to planned results, the correction of deviations, and the reporting of results.

<p>1. Quality and timely human resources information is available to support staffing strategies and decisions.</p>	<ul style="list-style-type: none"> <li>• A semi-annual human resources report is produced detailing the number of hires, departures, and turnover rate. It also highlights reasons for departures and anticipated retirement rates.</li> <li>• Monthly reports are produced identifying open positions and positions staffed during the previous month.</li> <li>• Regular meetings are held between staffing officers and managers to review progress on open positions.</li> </ul>
<p>2. The delegated organization monitors staffing on a continuing basis.</p>	<ul style="list-style-type: none"> <li>• The Human Resources Principal monitors all exceptions to staffing rules.</li> <li>• There have been no acting appointments exceeding 12 months.</li> <li>• Waivers are obtained from the Auditor General for all hirings at the director/principal level that do not meet language requirements.</li> <li>• Standards for documentation of staffing files are followed.</li> <li>• Apart from our accounting trainees, there have been only four term appointments for periods of over 12 months.</li> </ul>

# Our organizational structure

## ORGANIZATION CHART OF THE OFFICE OF THE AUDITOR GENERAL OF CANADA



AUDIT SERVICES
<b>Professional Practices</b> Assistant Auditor General International Relations Strategic Planning Methodology and Practice Development Practice Review Internal Audit
<b>Corporate Services</b> Assistant Auditor General* Legal Services Parliamentary Liaison Human Resources Information Technology and Security Information and Knowledge Management
Communications
Comptroller

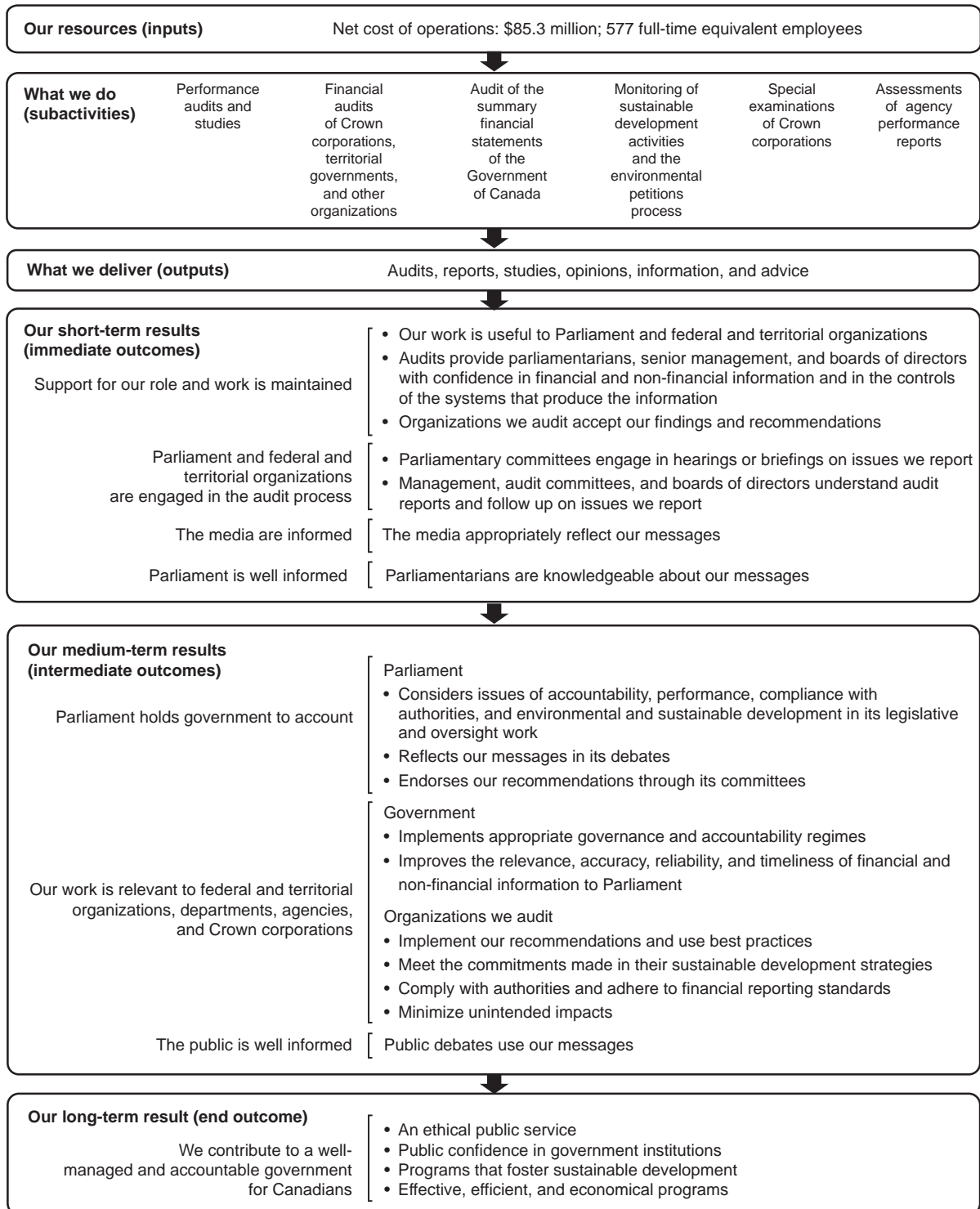
AUDIT PRACTICES
<b>Assistant Auditor General – Group 1</b> Foreign Affairs and International Trade Canada, Canadian International Development Agency, Citizenship and Immigration Canada, Immigration and Refugee Board, Veterans Affairs Canada, Export Development Canada, Canada Mortgage and Housing Corporation, Canada Deposit Insurance Corporation, other selected Crown corporations, small entities
<b>Assistant Auditor General – Group 2</b> Canadian Heritage, Transport Canada, Parks Canada Agency, Canadian Broadcasting Corporation, museums and other selected Crown corporations
<b>Assistant Auditor General – Group 3</b> Public Works and Government Services Canada, Health Canada, Indian and Northern Affairs Canada, Public Service Commission of Canada, Public Service Human Resource Management Agency, Canada School of Public Service, Statistics Canada, human resources management, governance and accountability, results measurement and reporting
<b>Commissioner of the Environment and Sustainable Development – Group 4</b> Environmental and sustainable development audits and studies, sustainable development strategies monitoring, environmental petitions, Environment Canada
<b>Assistant Auditor General* – Group 5</b> Forensic audits
<b>Assistant Auditor General – Group 6</b> Human Resources and Social Development Canada, Natural Resources Canada, Industry Canada, National Research Council, Atomic Energy of Canada Limited, Via Rail, Business Development Bank of Canada and other selected Crown corporations, regional Montréal office, United Nations audits
<b>Assistant Auditor General – Group 7</b> Canada Revenue Agency
<b>Assistant Auditor General – Group 8</b> National Defence, Justice, Public Safety and Emergency Preparedness
<b>Assistant Auditor General – Group 9</b> Yukon, Northwest Territories and Nunavut, Fisheries and Oceans Canada, Agriculture and Agri-Food Canada, Canadian Food Inspection Agency, Farm Credit Canada and other selected Crown corporations, regional Vancouver and Edmonton offices
<b>Assistant Auditor General – Group 10</b> Public Accounts, Finance, Treasury Board Secretariat, Information Technology, Financial Management and Control, Royal Canadian Mint and other selected Crown corporations, regional Halifax office

Panel of Environmental Advisors

\*Assistant Auditor General is responsible for more than one portfolio.

April 2006

# Our results chain



## Methodological endnotes

1. The Office conducts post-audit surveys for major products, including financial audits, performance audits, and special examinations. Surveys for financial audits have been conducted biennially since 2002–03, surveys for performance audits have been conducted after each tabling since 2003–04, and a survey has been conducted for each special examination since October 2002. The table below summarizes the data quality parameters for the data reported in the current performance report. The confidence intervals (CI) are calculated for a 90 percent confidence level.

Audit type	Population type	Period	Population size	Responses	Response rate	CI at 90%
Financial	Audit committee chairs	2002–03	52	30	58%	9.8%
Financial	Chief financial officers and presidents	2002–03	83	63	76%	5.1%
Financial	Audit committee chairs	2004–05	48	29	60%	9.6%
Financial	Chief financial officers and presidents	2004–05	80	59	74%	5.5%
Performance	Deputy ministers and commissioners	2003–04	103	80	78%	4.3%
Performance	Deputy ministers and commissioners	2004–05	76	54	71%	6.0%
Performance	Deputy ministers and commissioners	2005–06	57	49	86%	4.4%
Special Examination	Board chairs	Fourth cycle	25	19	76%	9.2%
Special Examination	Chief executive officers	Fourth cycle	29	20	69%	10.2%

2. In 2002, we surveyed parliamentarians, including those on the House of Commons Standing Committee on Public Accounts and Standing Committee on Environment and Sustainable Development, on their perception of our Office, our credibility, and our performance, and on issues they would like the Auditor General to address in the coming years.

We developed a comprehensive methodology to take into account all aspects of our relationship with Parliament. A consultant conducted interviews to ensure independence of results. We set up interviews with all members of the standing committees on Public Accounts and Environment and Sustainable Development because they are most likely to use our reports. Our consultant interviewed 16 of the 17 members of the Public Accounts Committee, and 12 of the 16 members of the Environment and Sustainable Development Committee. For the other members of the House of Commons and the Senate, 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  $\pm 9.8$  percent, 18 times out of 20.

For each question, the confidence interval is likely to be smaller. To obtain this level, 104 parliamentarians were contacted, resulting in a response rate of 58 percent. The main reason that most parliamentarians cited for not engaging in interviews was that they were too busy with the shortened session and had conflicting schedules.

3. When we count the number of hearings and briefings in which we participate, we consider our appearances before all committees of the House of Commons and the Senate. The other indicator (performance audit and related products reviewed by parliamentary committees) is a ratio of 2005–06 audits that resulted in a hearing to the total number of audits published in the same fiscal year. When calculating the number of performance audits, we considered the 25 performance audits and related products.

To calculate the percentage, we consider all parliamentary hearings held on one audit as one hearing. A hearing can occur in a subsequent fiscal year, but it would contribute to the Office’s performance for the year that the report was published. Any revisions of historical numbers would be noted.

4. We consider that the Public Accounts Committee endorses our recommendations when its 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 the next fiscal year, data for assessing our 2005–06 performance is not sufficient to accurately reflect our performance.

5. In previous years, this indicator was presented by calendar year. For purposes of consistency with our other Office indicators, it will now be presented by fiscal year. The calendar year and fiscal year results are identical for the three years presented (2003–04, 2004–05, and 2005–06) because no Auditor General reports were published in January, February, or March of 2000, 2001, or 2002.

This performance indicator is based on the success of departments and agencies in fully implementing our recommendations after a reasonable interval. We use a four-year interval, between the year the report is tabled and the year we assess implementation, because our data shows that departments and agencies often need this time to complete action on our recommendations.

To determine the status of outstanding recommendations, the Office receives reports from the entity on progress made in implementing recommendations. The audit team assesses entity progress based on guidance available from the Office. The Office does not verify the reliability of information provided by organizations for this purpose. Recommendations from government-wide audits and from audits by the Commissioner of the Environment and Sustainable Development were previously not monitored by the Office; therefore, they are, not included in the statistics in Exhibit 10, for 2003–04, 2004–05, and 2005–06.

During 2005–06, however, we began monitoring recommendations directed to specific entities from government-wide audits and those from reports of the Commissioner of the Environment and Sustainable Development. Recommendations not directed to a specific entity continue to be excluded from this monitoring exercise. The Office began reporting on this broader set of monitored recommendations in this year’s performance report outside Exhibit 10. This was to avoid potential confusion with figures compiled using a different methodology. A target for future years will be established in the *2006–07 Report on Plans and Priorities*.

6. An independent consulting firm conducted a survey Office employees. A total of 594 employees were invited to participate, and 534 employees completed the survey. The overall response rate was 90 percent. The overall margin of error for the survey was one percent, 18 times out of 20.

7. These percentages do not include employees who have been excluded from the language requirement because they will retire within three years or have disabilities that do not enable them to learn an additional language. For principals and assistant auditors general, 13 of 77 were excluded; for directors, 12 of 110 were excluded.



## Web site references

Many items that 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	<a href="http://www.oag-bvg.gc.ca/">www.oag-bvg.gc.ca/</a>
Sheila Fraser, Auditor General of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/04execbio_e.html#sfraser">www.oag-bvg.gc.ca/domino/other.nsf/html/04execbio_e.html#sfraser</a>
Commissioner of the Environment and Sustainable Development	<a href="http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/cesd_index_e.html">www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/cesd_index_e.html</a>
<i>Auditor General Act</i>	<a href="http://laws.justice.gc.ca/en/A-17/index.html">laws.justice.gc.ca/en/A-17/index.html</a>
<i>Financial Administration Act</i>	<a href="http://laws.justice.gc.ca/en/F-11/index.html">laws.justice.gc.ca/en/F-11/index.html</a>
<i>Privacy Act</i>	<a href="http://laws.justice.gc.ca/en/p-21/255104.html">laws.justice.gc.ca/en/p-21/255104.html</a>
Reports to Parliament	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html</a>
Observations of the Auditor General on the Financial Statements of the Government of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html</a>
Publications	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html</a>
Practice review and internal audit reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html</a>
External review reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html</a>
Sustainable Development Strategy, 2003–2006	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html">www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html</a>
Comptrollership Capacity Assessment and Action Plan	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/200403ccap_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/200403ccap_e.html</a>
Government of Canada	
Parliament	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Office of the Commissioner of Official Languages	<a href="http://www.ocol-clo.gc.ca/">www.ocol-clo.gc.ca/</a>
Public Service Commission	<a href="http://www.psc-cfp.gc.ca/">www.psc-cfp.gc.ca/</a>
Office of the Privacy Commissioner of Canada	<a href="http://www.privcom.gc.ca/">www.privcom.gc.ca/</a>
Canadian Human Rights Commission	<a href="http://www.chrc-ccdp.ca/">www.chrc-ccdp.ca/</a>
Standing Committee on Public Accounts	<a href="http://cmte.parl.gc.ca/cmte/CommitteeHome.aspx?Lang=1&amp;PARLSES=391&amp;JNT=0&amp;SELID=e17_&amp;COM=10466">cmte.parl.gc.ca/cmte/CommitteeHome.aspx?Lang=1&amp;PARLSES=391&amp;JNT=0&amp;SELID=e17_&amp;COM=10466</a>
Standing Committee on Environment and Sustainable Development	<a href="http://cmte.parl.gc.ca/cmte/committeehome.aspx?selectedelementid=e17_&amp;lang=e&amp;ommitteeid=10471&amp;joint=0">cmte.parl.gc.ca/cmte/committeehome.aspx?selectedelementid=e17_&amp;lang=e&amp;ommitteeid=10471&amp;joint=0</a>
Senate Standing Committee on Energy, the Environment and Natural Resources	<a href="http://www.parl.gc.ca/common/Committee-SenHome.asp?Language=E&amp;Parl=39Ses=1&amp;comm-id=5">www.parl.gc.ca/common/Committee-SenHome.asp?Language=E&amp;Parl=39Ses=1&amp;comm-id=5</a>

Standing Committee on National Finance	<a href="http://cmte.parl.gc.ca/cmte/committeehome.aspx?selectedelementid=e17_&amp;lang=e&amp;ommitteeid=10479&amp;joint=0">cmte.parl.gc.ca/cmte/committeehome.aspx?selectedelementid=e17_&amp;lang=e&amp;ommitteeid=10479&amp;joint=0</a>
Treasury Board of Canada Secretariat	<a href="http://www.tbs-sct.gc.ca">www.tbs-sct.gc.ca</a>
Results for Canadians: A Management Framework for the Government of Canada	<a href="http://www.tbs-sct.gc.ca/res_can/rc_e.html">www.tbs-sct.gc.ca/res_can/rc_e.html</a>
Results-Based Management and Accountability Framework of the Modern Comptrollership Initiative	<a href="http://www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAFO2_e.asp">www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAFO2_e.asp</a>
TBS Management Accountability Framework	<a href="http://www.tbs-sct.gc.ca/maf-crg/index_e.asp">www.tbs-sct.gc.ca/maf-crg/index_e.asp</a>
Financial Information Strategy	<a href="http://www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp">www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp</a>
Canadian International Development Agency	<a href="http://www.acdi-cida.gc.ca/index.htm">www.acdi-cida.gc.ca/index.htm</a>
<b>Professional organizations</b>	
Canadian Council of Legislative Auditors	<a href="http://www.ccola.ca/index_english.cfm">www.ccola.ca/index_english.cfm</a>
Canadian Evaluation Society	<a href="http://www.evaluationcanada.ca">www.evaluationcanada.ca</a>
Canadian Institute of Chartered Accountants	<a href="http://www.cica.ca/index.cfm/ci_id/17150/la_id/1.htm">www.cica.ca/index.cfm/ci_id/17150/la_id/1.htm</a>
CCAF-FCVI Inc.	<a href="http://www.ccaf-fcvi.com/entrance.html">www.ccaf-fcvi.com/entrance.html</a>
Environmental Working Group (INTOSAI)	<a href="http://www.environmental-auditing.org">www.environmental-auditing.org</a>
Financial Management Institute of Canada	<a href="http://www.fmi.ca">www.fmi.ca</a>
Institute of Internal Auditors	<a href="http://www.theiia.org">www.theiia.org</a>
International Federation of Accountants	<a href="http://www.ifac.org">www.ifac.org</a>
International Organization of Supreme Audit Institutions (INTOSAI)	<a href="http://www.intosai.org">www.intosai.org</a>
United Nations Panel of External Auditors	<a href="http://www.unsystem.org/auditors/external.htm">www.unsystem.org/auditors/external.htm</a>