



Office of the Auditor General of Canada

2006–07 Estimates

Performance Report

Approved

Handwritten signature of Sheila Fraser in black ink.

Sheila Fraser, FCA
Auditor General of Canada

Handwritten signature of James Michael Flaherty in black ink.

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 *2006–07 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 about 150 financial and performance audits every year. The reports we give to Parliament describe areas of government that need attention, offer recommendations for improvement, and point out good practices.

Some say that our role in auditing government amounts to looking at its activities through a rear-view mirror. But this ignores the constructive value of our work. Our audits also point to the causes of problems, and we make recommendations for improvement. In this way, we contribute to maintaining healthy public institutions.

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 in 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.

Our priorities for 2006–07 were to improve our audit products and to maintain our strong workforce while implementing our expanded mandate.

Achievements

As a result of Parliament having expanded our mandate in 2005, we increased our numbers of financial audits and special examinations of Crown corporations. In addition, we now consider federally funded foundations when planning all our performance audit work. This year, we issued our first audit report that included a foundation: Sustainable Development Technology Canada.

As we face increasing competition for experienced auditors from other federal organizations and the private sector, it is a constant challenge to recruit and retain a strong base of employees. While still experiencing some turnover in our staff, we are seeing an improvement in our retention rate. At the same time, our workforce better represents the Canadian population and we have improved the bilingual capacity in the management group from 62 percent in 2005–06 to 82 percent in 2006–07. Our 2006 employee survey showed 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; they consider it a well-run organization, characterized by clear direction and strong support for vision and values.

A key question we ask to assess the impact of our work is whether our audits contribute to improving management within government. One of the ways we monitor this is asking departments to report on their progress in implementing our recommendations. In 2006–07, departments reported that they had fully implemented 46 percent of the performance audit recommendations we made four years ago and had substantially implemented 26 percent.

We monitor Parliament's engagement with our performance audit reports by looking at how frequently parliamentary committees ask us to appear before them to further elaborate on our findings. I am pleased to report that in the past year committees reviewed 63 percent of our performance audit reports, representing a significant increase from 48 percent in 2005–06 and 52 percent in 2004–05. We participated in 64 hearings and briefings, a significant increase from previous years in both the total number of hearings and the percentage of hearings relative to the number of parliamentary sitting days.

In the spring of 2007, we surveyed parliamentarians on the impact of our performance audits tabled in 2006–07. In particular, we sought feedback from members of four key parliamentary committees that review our reports. The responses to the five questions we use to determine whether we added value showed an average satisfaction rate of 94 percent. In particular, parliamentarians responded overwhelmingly that our audit reports were easy to understand, findings were reported in an objective and fair manner, the audits identified opportunities for improvement, and the reports were an important source of information to support the work of their committees.

Areas for improvement

We continue to deliver all of our work within the appropriations approved by Parliament, although we had difficulties completing individual audits within budgets. We also had problems completing some special examinations and financial audits on time. We have begun to implement a more rigorous budget-setting and management process in order to improve in this area.

The Commissioner of the Environment and Sustainable Development and the related part of our mandate have been in place now for 12 years. The time was ripe to look at whether there are things we can do differently to better serve Parliament. In recent years, we have reviewed our financial and performance audit practices and have modified our practices as a result. I invited a group of independent experts—the Green Ribbon Panel—to recommend ways to strengthen our environmental and sustainable development audit practice. I expect the Panel's recommendations and my response to them will be communicated in the fall of 2007.

Behind all our achievements is an exceptionally competent, professional, and dedicated workforce. I wish to take this opportunity to thank my staff for their continued dedication to the Office and the Parliament we serve.

I trust you will find this performance report presents an open and balanced picture of our activities and impacts in 2006–07.



Sheila Fraser, FCA
Auditor General of Canada

18 September 2007

Management representation statement

We submit, for tabling in Parliament, the Office of the Auditor General of Canada's 2006–07 *Performance Report* for the year ended 31 March 2007. 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 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 of Canada Secretariat's *Guide to the Preparation of Part III of the 2006–07 Estimates—Reports on Plans and Priorities and 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 following advice from the Office's Audit Committee.



Sheila Fraser, FCA
Auditor General of Canada



Jean Landry, CGA
Acting Comptroller

Ottawa, Canada
18 September 2007

Performance highlights

Achievements

We completed about 150 financial and performance audits, special examinations, and other reports during the 2006–07 fiscal year. Most were completed on time—85 percent for federal organizations and 56 percent for territorial organizations.

We survey the key users of our audit reports; in the past year, those surveyed included parliamentarians who were directly involved in the review and use of our reports. The results indicated that 94 percent felt that our findings were reported in a fair and objective manner and that our reports were clear and concise.

Parliamentary committees reviewed 63 percent of our performance audit reports, representing a significant increase from 48 percent in 2005–06 and 52 percent in 2004–05. We participated in 64 hearings and briefings with parliamentary committees over the course of the 130 parliamentary sitting days.

In 2006–07, departments reported that they had fully implemented 46 percent of the performance audit recommendations we tabled four years ago and had substantially implemented 26 percent.

We received 37 environmental petitions of which 96 percent were responded to by ministers within the 120-day time limit specified in the *Auditor General Act*.

We completed 11 internal practice reviews of our financial audits, performance audits, and assessments of agency performance reports; these reviews all concluded that our audits and assessments were conducted in accordance with professional standards and our quality management framework.

To assemble a workforce that represents the Canadian population, the Office has increased its relative levels of representation for two of the four designated groups, with three now exceeding the levels of representation in the community.

Areas for improvement

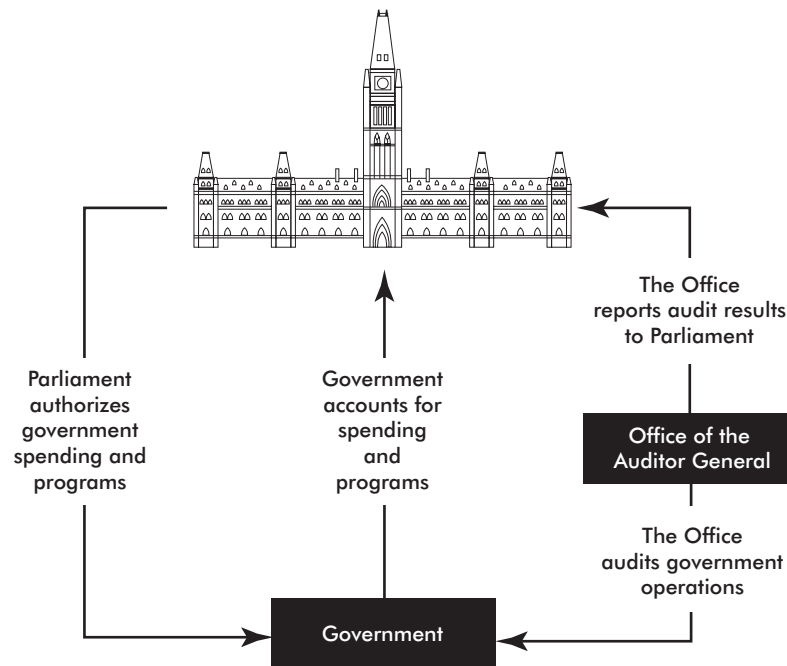
The Office has begun to implement a more rigorous process to assign and monitor budgets for individual audits. While on the whole the Office continues to complete its planned audit work with the appropriations approved by Parliament, efforts are under way to further refine the budget and project management process for individual audits.

Section I—Overview

Who we are

The Auditor General is an Officer of Parliament. She is independent from the government and reports directly to Parliament (Exhibit 1). She leads a dedicated team of some 600 professionals and support staff located in five offices across the country.

Exhibit 1—The Auditor General’s role as an Officer of Parliament



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

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

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 committee hearings, we assist Parliament in its work related to the authorization and oversight of government spending and operations.

Our major subactivities. Legislative auditing, our main activity, consists of eight subactivities; two of these—professional practices and audit services—are supporting activities (see Exhibit 2 for further details of the six other subactivities).

The focus of our audits. We are responsible for carrying out audits and studies of organizations to answer many important questions on behalf of Parliament and, in turn, Canadians at large.

Exhibit 2—The Auditor General answers many important questions

Legislative audit subactivities ¹	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?

¹These audits and studies are detailed in the *Auditor General Act* (sections 5, 6, 7, and 23) and the *Financial Administration Act* (Part X), and in the enabling legislation of the three agencies noted above.

Performance audits. Performance audits examine, against established criteria, whether government programs are being managed with due regard for 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 government policy, or 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. Where required, we provide assurance that the organizations we audit comply with the key legislative authorities that govern their activities. 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.

If issues or opportunities for improvement in areas such as financial reporting and internal controls come to our attention during our financial audit work, we make recommendations to management and the boards of directors.

Special examinations. A special examination assesses the financial and management control and information systems and management practices of a Crown corporation and provides an opinion on whether there is reasonable assurance that there are no significant deficiencies in these systems and practices. The *Financial Administration Act* requires all Crown corporations to have a special examination of their organization conducted by the Office once every five years, except for the Bank of Canada, which is not required to have a special examination and the Canada Pension Plan Investment Board, which, under its Act, is subject to a special examination by a private sector accounting firm.

Who receives our reports

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

Our performance audits are tabled in Parliament and published up to four times a year in the reports of the Auditor General of Canada and the Commissioner of the Environment and Sustainable Development. 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.

Other recipients. Certain of our reports are also provided to other groups. Our audit reports on the financial statements of Crown corporations are addressed to the appropriate minister and published in the annual reports of these organizations. Our audit reports on the financial statements of other federal organizations are generally addressed to the minister or the head of the corporation or other interested parties.

Our performance audit reports of territorial governments and our audit reports on their financial statements are published and presented to the territorial legislatures. These reports 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. Our opinions on the financial statements of the 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 legislation also states that we should bring the information in the report to the attention of the appropriate minister and of Parliament when we deem it appropriate. We do this when certain types of significant deficiencies are present, for example those related to mandate issues, issues that only the government can address, issues of a governance nature, and when problems, previously reported, continue to occur.

What our governance structure is

The Auditor General. The Auditor General leads the Office and, as an Officer of Parliament, is accountable to Parliament for the Office's performance.

The Executive Committee. The Executive Committee provides overall professional and administrative direction for the Office. It sets policy and oversees all aspects of management and operations in the Office. It comprises the Auditor General, the Deputy Auditor General, the Commissioner of the Environment and Sustainable Development, and 13 assistant auditors general.

External advice. The Auditor General receives advice from a number of committees with external members:

- **The Audit Committee.** The Committee oversees the quality of audit practices and internal controls. The majority of its members are external to the Office, and it is chaired by a retired partner from a private sector accounting firm.
- **The Panel of Senior Advisors.** The Panel provides strategic advice on the work of the Office and is composed of leading representatives from the private sector, the accounting profession, the academic community, and other parties.
- **The Independent Advisory Committee.** The Committee advises the Auditor General on the audits of the financial statements of the Government of Canada, Crown corporations, territorial governments, and other organizations. The Committee helps the Auditor General monitor developments in the accounting and auditing profession and considers their impact on the Office. This committee is made up of senior accountants and financial consultants.
- **Panels on Aboriginal issues.** The panels advise the Auditor General on matters affecting Canada's Aboriginal peoples, and include Aboriginal and non-Aboriginal leaders.
- **Audit advisory committees.** These committees advise on the objectives and approach of performance audits or special examinations, and on significant matters and findings to be reported. Members are experts with relevant experience from inside and outside the Office with a variety of backgrounds, such as former senior public servants, and leading representatives from the private sector, academia, and First Nations.

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

- **The Panel of Environmental Advisors.** The Panel advises the Commissioner on his work and on environmental and sustainable development matters. It includes leading representatives from environmental groups, the private sector, and the academic community, as well as former senior public servants.

Further information on the Office's organization is available in the organization chart in Section IV—Supplementary Information and on our website under About Us.

How we are held accountable

Who audits the Auditor General? Each year, an external auditor appointed by the Treasury Board 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.

These financial statements are included in Section III of this performance report, which is submitted to the President of the Treasury Board for tabling in the House of Commons.

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 on the Office's compliance with the *Employment Equity Act*.

Who reviews our funding? The Auditor General prepares annual Estimates documents and the President of the Treasury Board submits them to Parliament. The Public Accounts Committee calls on the Auditor General to explain the Estimates for the Office 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, like government departments, we negotiated the level of funding with the Treasury Board of Canada Secretariat, one of the organizations we audit. However, this process was not considered to be 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 processes for all officers of Parliament. The new mechanism, involving a parliamentary oversight panel, seeks to respect the role of Parliament and the independence and distinct mandates of its officers, and also to reflect the responsibility of the government for sound stewardship of public resources.

When an Officer of Parliament develops a submission for the Treasury Board, the panel reviews both the submission and the Treasury Board of Canada Secretariat's assessment of the submission. The panel then provides advisory recommendations for consideration by the Treasury Board.

The Auditor General appeared before the panel in November 2006, requesting about a \$4 million addition to our ongoing funding and about \$2 million in one-time capital funding. The panel unanimously agreed to recommend the requested funding increases to the Treasury Board.

Who assesses our audit methodologies? Our audit work is guided by a rigorous methodology and quality management framework. The framework provides reasonable assurance that our audits are conducted in accordance with established standards of professional practice.

To ensure that our quality management framework is suitably designed and operating effectively, we subject it to periodic external reviews by peers. We also conduct internal practice reviews of our audits. We publish our peer reviews and summaries of our practice reviews on our website under About Us.

The provincial institutes of chartered accountants review our compliance with professional standards for financial audits about every four years, in order to determine whether our training of chartered accountant students meets their requirements.

We conduct internal audits of our management and administration practices to assure the Auditor General that the Office is complying with government and Office policies. The audits also provide managers with assessments and recommendations. We normally conduct one internal audit per year. Executive summaries are published on our website.

Details of the results of these reviews are included in Section II—Reporting on Results.

Our strategic framework and results chain

The long-term strategic outcome of the Office of the Auditor General is to contribute to better-managed government programs and better accountability to Parliament through our legislative auditing. We use a results chain to describe our strategic outcome and to show how we expect to make a difference. The results chain links what we do (conduct audits and other assessments) and what we deliver (audits, studies, opinions, information, and advice) to the results we expect to achieve in the short, medium, and long terms. It also describes the various stakeholders and their contributions to improving government operations. A copy of the results chain is included in Section IV—Supplementary Information.

The strategic framework of the Office of the Auditor General (OAG) presents our vision and our values that guide our work (Exhibit 3).

Exhibit 3—The strategic framework of the Office of the Auditor General of Canada

Our Vision

An independent audit office serving Parliament, widely respected for the quality and impact of our work.

We promote

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

We do this by

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

Our values are

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

Our key performance results for 2006–07

Below are our key high-level aggregate performance results for 2006–07. Further details and breakdowns of these results are available in Section II—Reporting on Results.

Indicators of impact

Exhibit 4 — Audits add value to key users

Survey results (weighted average)

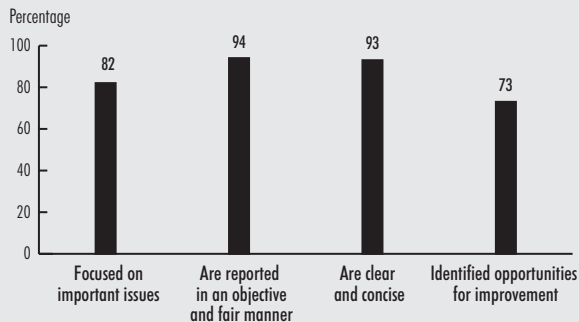


Exhibit 5 — Audits add value to the organizations we audit

Survey results (weighted average)

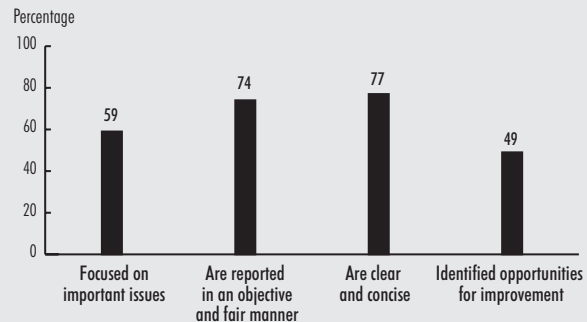


Exhibit 6 — Key users are engaged in the audit process

Percentage of performance audits reviewed by parliamentary committee

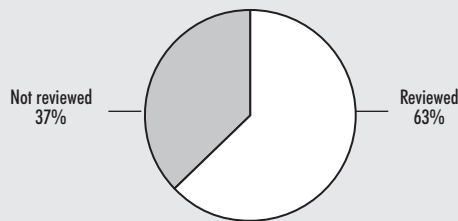
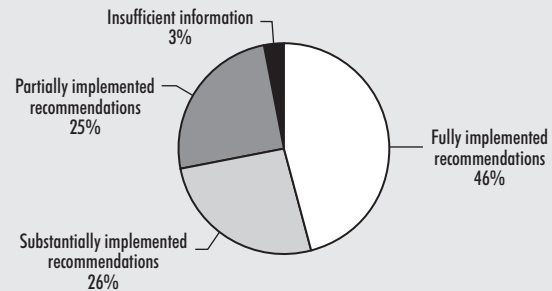


Exhibit 7 — Organizations we audit respond to our findings

Implementation rate of recommendations tabled in 2002–03



Measures of organizational performance

Exhibit 8 — Our work is delivered on-time and on-budget

Percentage

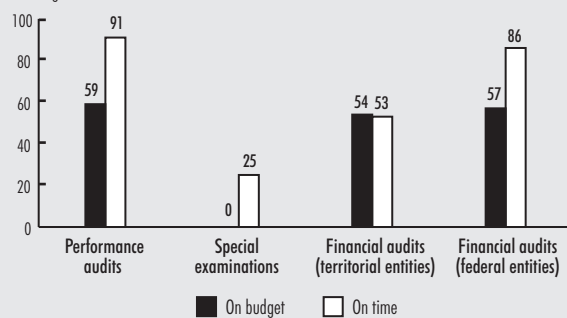
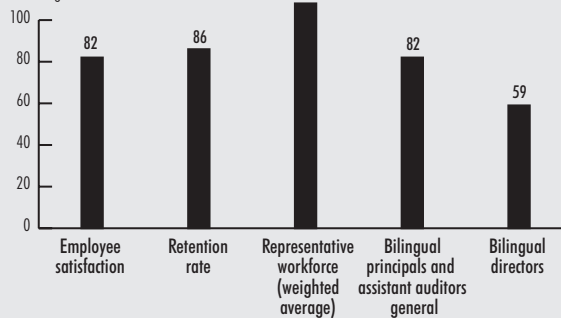


Exhibit 9 — We provide a respectful workplace

Percentage



Section II—Reporting on Results

Our performance indicators and measures

Our strategic outcome is to contribute to well-managed and accountable government by conducting independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians.

We measure and monitor our performance against our results chain (see Section IV—Supplementary Information). It links what we deliver—audits, reports, studies, opinions, information, and advice—to our strategic outcome (long-term result).

The Office has established a set of core indicators of impact and measures of organizational performance to help guide management decision making through an understanding of the organization's ongoing results.

Our indicators of impact help us to assess the extent to which

- our work adds value for the key users of our reports (page 16),
- our work adds value for the organizations we audit (page 18),
- key users of our reports are engaged in the audit process (page 19), and
- key users of our reports and the organizations we audit respond to our findings (page 22).

Our measures of organizational performance help us monitor the extent to which

- our work is delivered on time and on budget (page 25),
- our quality management framework is operating effectively (page 26), and
- we provide a respectful workplace (page 27).

In addition to measuring the Office's ongoing performance, we identified three priority areas for 2006–07:

- **Implement our expanded mandate.** In 2005, Parliament expanded our mandate. We have integrated these changes into our audit planning and operations resulting in an increased number of financial audits and special examinations of Crown corporations. As well, we now consider federally funded foundations in our performance audit planning.
- **Improve our audit products.** An electronic file management system has been introduced for the management of audit working papers. In addition, the implementation of a risk-based audit planning approach, whereby we identify significant issues for audit, has significantly progressed.
- **Maintain our strong workforce.** Our results related to this priority are set out under four objectives (see *We provide a respectful workplace*, page 27).

We also had two significant long-term commitments:

- **Sustainable development.** The Office has developed its own sustainable development strategy to ensure that the environmental consequences of its activities, as well as those of the federal

government, are considered as we plan, conduct, and report our audits. (see Sustainable development commitments and results, page 29).

- **International involvement.** The Office has continued to work with the international community in developing professional standards, building capacity, sharing knowledge, and conducting audits of international institutions (see Our international contributions, page 28).

Exhibits 10 and 11 provide a summary of the Offices' most recent results.

Exhibit 10—Summary of our indicators of impact

Objectives and indicators	2006–07 Actual	2006–07 Target
Our work adds value for the key users of our reports		
Percentage of parliamentary committee members who find our performance audits add value	92	No target established ¹
Percentage of audit committee chairs who find our financial audits add value	75	75
Percentage of board chairs who find our special examinations add value	87	No target established ¹
Our work adds value for the organizations we audit		
Percentage of departmental senior managers who find our performance audits add value	61	60
Percentage of Crown corporation and large department senior managers who find our financial audits add value	66	75
Percentage of Crown corporation chief executive officers who find our special examinations add value	78	75
Key users of our reports are engaged in the audit process		
Number of parliamentary hearings and briefings we participate in	64	No target established
Percentage of performance audits reviewed by parliamentary committees	63	60
Key users of our reports and the organizations we audit respond to our findings		
Percentage of performance audit recommendations fully implemented four years after their publication	46	50
Percentage of qualifications that continue from one financial audit to the next	0	0
Percentage of significant deficiencies that continue from one special examination to the next	0	0

Exhibit 11—Summary of our measures of operational performance

Objectives and measures	2006–07 Actual	2006–07 Target
Our work is delivered on time and on budget		
On time:		
Percentage of performance audit reports tabled in the House of Commons on the planned tabling date as published in the Report on Plans and Priorities	91	No target established ¹
Percentage of financial audits completed on time ²		No target established ¹
• federal organizations	86	
• territorial organizations	53	
Percentage of special examination reports delivered on or before the statutory deadline	25	No target established ¹
On budget:		
Percentage of audits that meet their budgeted hours ³		
• Performance audits	59	No target established ¹
• Financial audits—federal organizations	57	No target established ¹
• Financial audits—territorial organizations	54	No target established ¹
• Special examinations	0	No target established ¹
Our quality management framework (QMF) is operating effectively		
Percentage of external peer reviews that find our QMF suitably designed and operating effectively	n/a ⁴	No target established ¹
Percentage of internal practice reviews that find our audits in compliance with our quality management frameworks	100	No target established ¹
We provide a respectful workplace		
Percentage of employees who believe the Office is either an above-average place to work or one of the best places to work	82 ⁵	70
Percentage of management who meet our language requirements		
• assistant auditors general and principals	82	100
• directors in bilingual regions	59	75
Percentage representation of workforce availability for		100
• women	113	
• people with disabilities	105	
• Aboriginal peoples	110	
• members of visible minorities	65	

Exhibit 11—Summary of our measures of operational performance

Objectives and measures	2006–07 Actual	2006–07 Target
Percentage retention of audit professionals	86	90

¹ Targets have since been established and are included in our *2007–08 Report on Plans and Priorities*.

² “On time” means the statutory deadline where one exists (usually 90 days after year-end), or 150 days after the year end where no statutory deadline exists.

³ “On budget” means that the actual audit hours to complete an audit did not exceed the originally budgeted hours by more than 15 percent.

⁴ No peer reviews were carried out in 2006–07. The previous peer review found that our quality management framework is suitably designed and operating effectively.

⁵ The employee survey results shown were published in June 2006. The next survey will be conducted in the spring of 2008.

Our indicators of impact

By using selected indicators, we attempt to gather information on the impact of our work. The indicators involve various external aspects and are therefore not entirely under the control of the Office.

Our work adds value for the key users of our reports

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

- members of key 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*. While the response rates to our surveys are within normal expectations, the actual number of respondents is quite small. Therefore, variances in results year over year should be compared with a degree of caution. Given the population size of respondents, even a small number of changes in responses may appear as a relatively significant change in the overall rating. (For details on the methodology used, see methodological endnotes 1 and 2 under Section IV—Supplementary Information.)

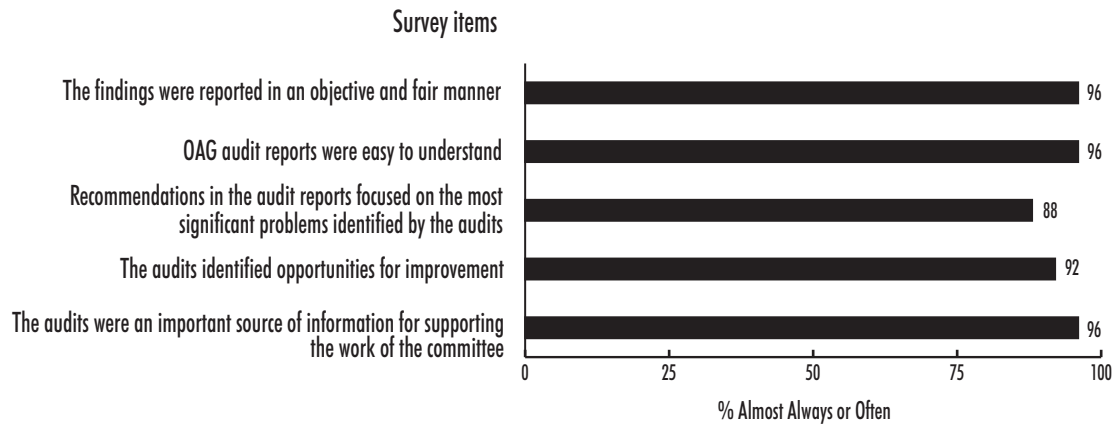
Survey respondents were asked to rate, on a five-point scale ranging from either “very poor” to “very good” or “almost never” to “almost always”, many aspects of our audits and our interactions with them. The results of our surveys for the specific items that we use to define the term “add value” are shown in exhibits 12, 13, and 14.

Survey results for performance audits. In July 2007, we completed our first survey of parliamentarians under this methodology. It related to our performance audits tabled in 2006–07 (Exhibit 12). We plan to seek feedback from parliamentarians on an annual basis.

We surveyed the members of the four key parliamentary committees that review our reports—the House of Commons Public Accounts Committee and the Environment and Sustainable Development Committee, as well as the Senate Finance Committee and the Energy, Environment and Natural Resources Committee. Of the 47 members asked to respond to our survey, 24 responded. Although the sample size was small, therefore requiring that the findings be interpreted with some degree of

Exhibit 12—Performance audits add value for parliamentary committee members

2007 parliamentary survey (Number= 24)



Exhibits 13—Financial audits add value for audit committee chairs

2005–06 survey (Number= 29)

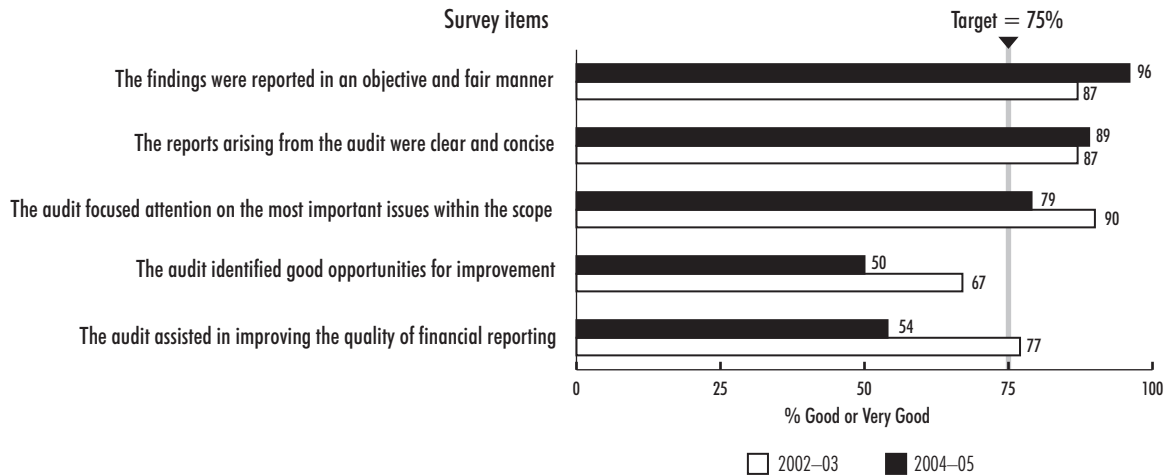
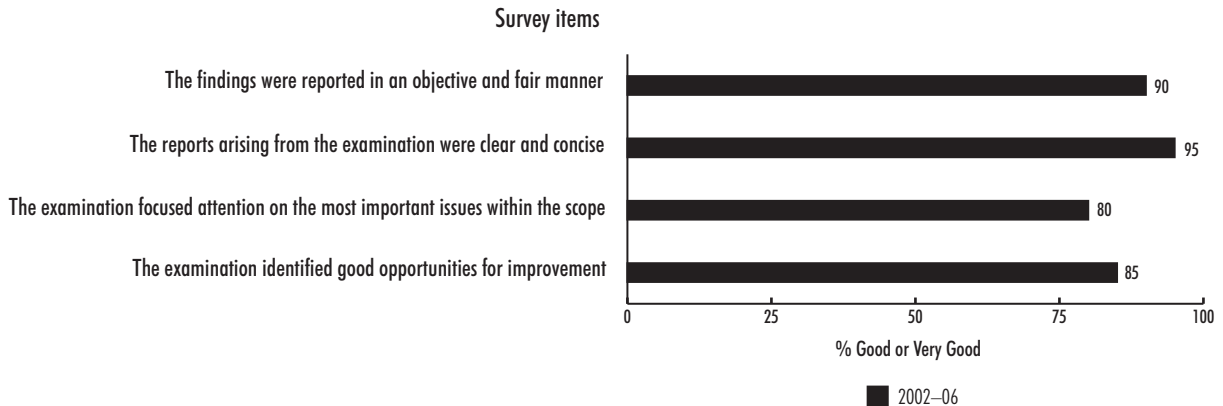


Exhibit 14—Special examinations add value for board chairs

Most recent survey (Number= 20)



caution, there was a decided leaning toward the positive: the average satisfaction rate for the five questions we use to define “add value” was 94 percent. In our *2006–07 Report on Plans and Priorities*, we did not establish a target for this indicator. The Office will analyze the results of the survey in detail and develop an action plan to address any areas of concern.

Additional feedback on Parliament’s response to the work produced by the Office was included in a report by the Standing Committee on Public Accounts tabled in the House of Commons on 29 May 2007, which examined the Auditor General’s *2005–06 Performance Report* and *2006–07 Report on Plans and Priorities*. The Committee stated:

“The Public Accounts Committee continues to be very satisfied with the work of the Office of the Auditor General, which performs a vital and indispensable role. The OAG’s budget of approximately \$85 million is a small fraction of the government’s overall expenditures of over \$200 billion. There is little doubt that the OAG represents good value for money in that it operates economically and efficiently and has saved the government, and the taxpayers that support it, considerable sums of money.”

Survey results from financial audits. 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 13).

In our *2006–07 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). Responses to three of the five questions are essentially above 80 percent for the first two sets of biennial surveys related to our financial audits. For the items “The audit identified good opportunities for improvement” and “The audit assisted in improving the quality of financial reporting,” we are reviewing the possible reasons for the relatively modest score and will be closely monitoring the results of future assessments.

Survey results for users of special examinations. To determine the value of our special examinations to Crown corporations, we survey their board chairs (Exhibit 14). We did not establish a target in our *2006–07 Report on Plans and Priorities* for the percentage of audited organizations that found our special examinations added value. For all four items surveyed, more than 80 percent of respondents rated our performance as good or very good, for an average score of 87 percent.

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

The items used to define the term “add value” are the same as those included in the surveys of report users. The overall result is that most of the organizations we audit believe that our reports add value.

Performance audit results. Since 2003–04, we have surveyed organizations subject to our performance audits after tabling the applicable report in Parliament (Exhibit 15).

The target for performance audits, established in our *2006–07 Report on Plans and Priorities*, was to have 60 percent of respondents rate our audits as good or very good. The most recent survey responses provided an average score of 61 percent. Results were near or above the target for all but one of the items: about 50 percent rated our audits as good or very good in identifying opportunities for improvement.

Financial audit results. We survey the senior managers of Crown corporations subject to a financial audit and senior managers of large departments every two years (Exhibit 16).

Our target was to have 75 percent of respondents consider that our audits added value (rate them as good or very good). The individual results were very near the target for two of the five items, and greater than 60 percent for all but one of the items. Again, our lowest score was on the item “The audit identified good opportunities for improvement.”

Special examination results. In our *2006–07 Report on Plans and Priorities*, we established a target of 75 percent for the percentage of audited organizations that consider our special examinations add value. The average overall score was 78 percent, thereby exceeding our target (Exhibit 17). Once again, the lowest score (57 percent) related to the reports being seen as good or very good at identifying good opportunities for improvement. For all of our audits, senior management of the Office is undertaking further analysis to understand the relatively low score on this dimension and to identify if specific action is required.

Key users of our reports are engaged in the audit process

For this indicator, we once again focus on the key users of our reports:

- members of key 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.

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 our reports.

For performance audits, we monitor the level of involvement of parliamentary committees by tracking the number of audits reviewed by committees. We also assess the committees’ level of interest in our reported findings by looking at how frequently they ask us to appear before them to further elaborate on our findings. 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.

Exhibit 15—Performance audits add value for senior management
2006–07 survey (Number = 75)

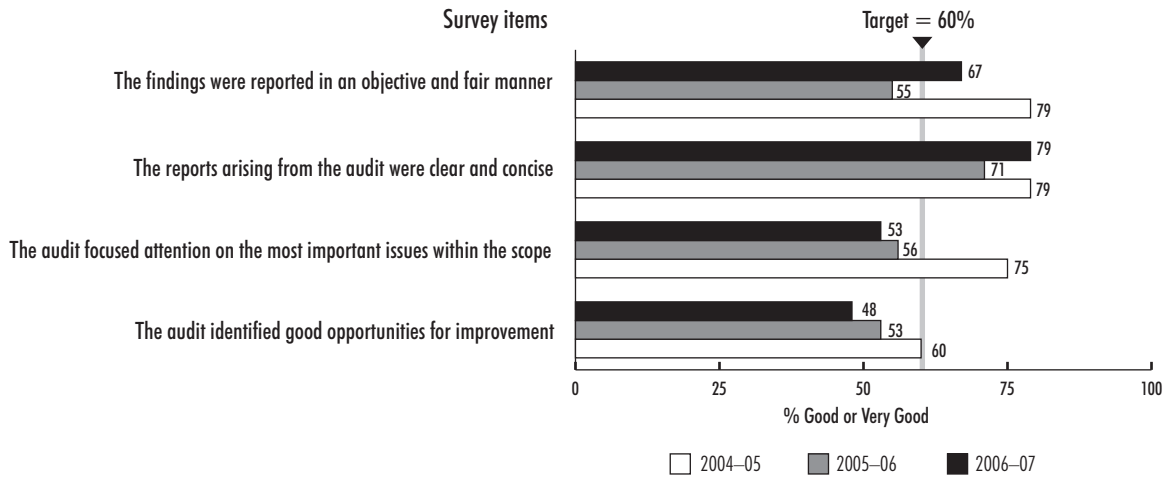


Exhibit 16—Financial audits add value for senior managers
2004–05 survey (Number = 59)

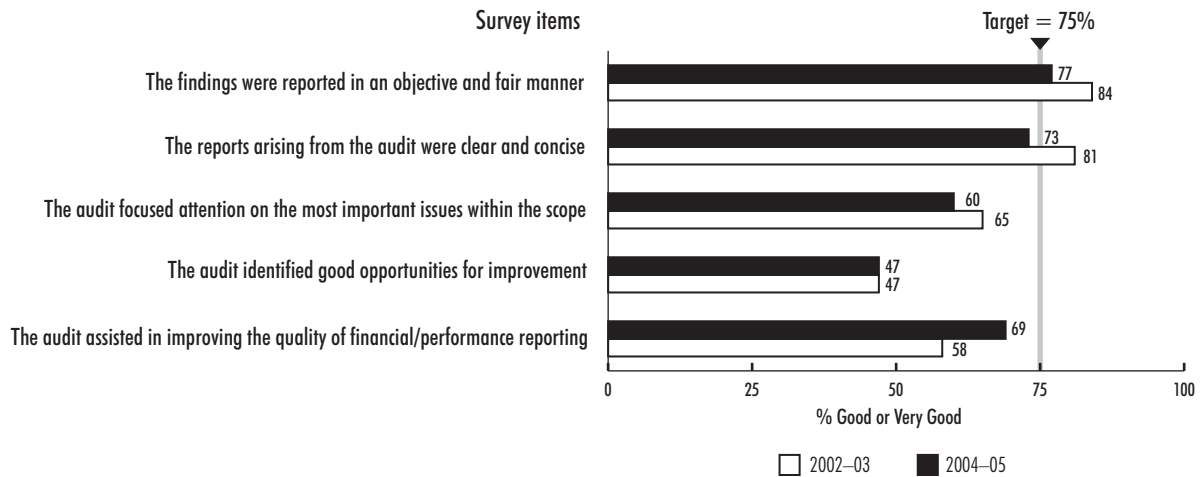
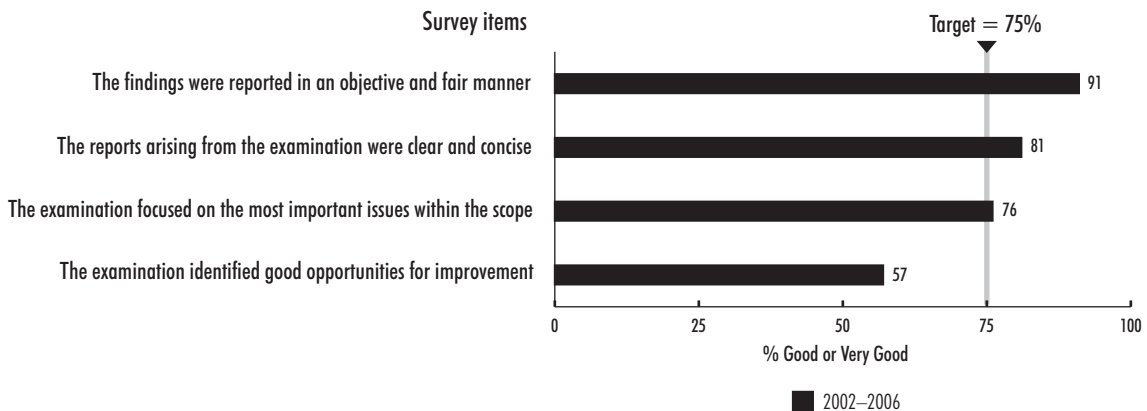


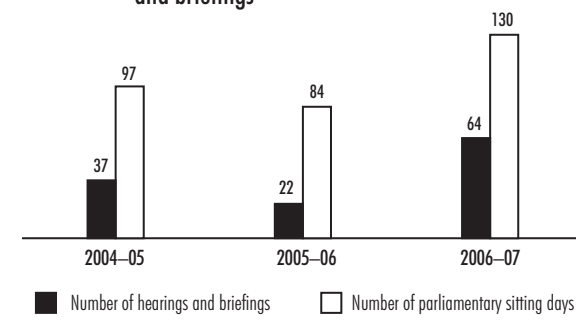
Exhibit 17—Special examinations add value for chief executive officers
Most recent survey (Number = 21)



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 expected to report back to the committees on what they have done in response to these recommendations.

In 2006–07, we participated in 64 hearings and briefings (Exhibit 18): 28 with the Public Accounts Committee and 36 with other committees. This represents a significant increase from previous years, both in the total number of hearings and in the percentage of hearings relative to the number of parliamentary sitting days (49 percent in 2006–07 versus 26 percent in 2005–06 and 38 percent in 2004–05). This is due in part to a few high profile chapters from our reports each of which was the subject of multiple hearings. Also, we note that, generally speaking, other standing committees have shown greater interest in our work this year.

Exhibit 18—We participate in parliamentary hearings and briefings



In terms of coverage, parliamentary committees reviewed 63 percent of our 2006–07 performance audits, a substantial increase from 48 percent the previous year and 52 percent in 2004–05. (For further details see methodological endnote 3 under Section IV—Supplementary Information.)

Committee hearings covered a wide range of topics and audit reports, including, for example, National Defence recruiting and retention, programs for First Nations, the Canadian Firearms Program, collection of tax debts, and acquisition of leased office space. The Commissioner of the Environment and Sustainable Development usually appears before both the House of Commons Committee on Environment and Sustainable Development and the Senate Committee on Energy, the Environment and Natural Resources. Other committees will also call upon the Commissioner if they are studying matters that have been audited by the Commissioner. This year, the Commissioner participated in hearings on climate change, ecological integrity in Canada's national parks, and oceans management.

Involvement with Crown corporation boards and other bodies. Throughout the financial audit process, we work closely with Crown corporation audit committees that have oversight responsibility for financial reporting. We engage these committees in our audit work to help them fulfil their oversight responsibilities.

We brief them regularly on the progress of our work. The committees will normally review the audit plan, including the audit scope, strategy, and procedures. Discussions include, among other things, how the plan addresses the corporation's significant risks, as well as other matters of interest that may have an impact on our work. In finalizing our audit report, we meet with the committees to discuss any significant findings and recommendations together with management's response and follow-up action.

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.

Involvement of boards of directors for special examinations. As with financial audits, we work closely with the boards of directors of Crown corporations and with their associated committees having oversight responsibility. We seek input from these committees in preparing our audit plans and solicit feedback from them as part of our post-examination process. We use the results of this feedback to assess our effectiveness and improve our practices.

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

For this indicator, the Office assesses the extent to which users of our reports respond to our findings. To do this, we monitor the extent to which

- Parliament considers the issues raised in our reports,
- the organizations we audit implement the recommendations in our performance audits,
- the organizations we audit address qualifications in our financial audits and significant deficiencies in our special examinations,
- departments implement their sustainable development strategies, and
- departments respond to environmental petitions on time and in a manner that addresses the issue raised.

The Office has limited control over the extent to which the above-noted items occur. Nonetheless, we track this information to the extent feasible as input to certain key internal management processes, such as the planning process.

Parliament considers the issues raised in our reports. We monitor how our performance audits help 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 example illustrates how our 2006–07 work has contributed to the legislative and oversight work of Parliament. Further examples are included in Section IV—Supplementary Information.

Allocating Funds to Regulatory Programs—Health Canada (November 2006 Report, Chapter 8)

Background. This chapter reported that Health Canada had not established program baselines for three regulatory programs. Therefore, the Department did not know if it was fully meeting its responsibilities as the regulator of drug products, medical devices, and product safety. Program managers had indicated to senior departmental officials that some core compliance and enforcement activities were insufficient to protect Canadians' health and safety. In the absence of a baseline, program managers were limited to using their experience and knowledge of the programs to report on funding shortfalls and unfulfilled regulatory responsibilities.

Result. In February 2007, the Public Accounts Committee held a hearing on this chapter. The committee fully supported our report, including the recommendations. The Committee believed that there were lessons learned that could be applied across government. Therefore, it recommended that the Treasury Board develop a policy by 31 December 2007 requiring all regulatory programs of the

Government of Canada to establish clear program baselines that set out the required level of activities, performance, and resources needed to meet regulatory responsibilities.

In response to our recommendations, Health Canada agreed to review the funding allocated to regulatory programs. The Committee recommended that Health Canada make risk assessments an integral part of the review of its regulatory programs. Health Canada must provide the Public Accounts Committee with the results of its review immediately upon completion.

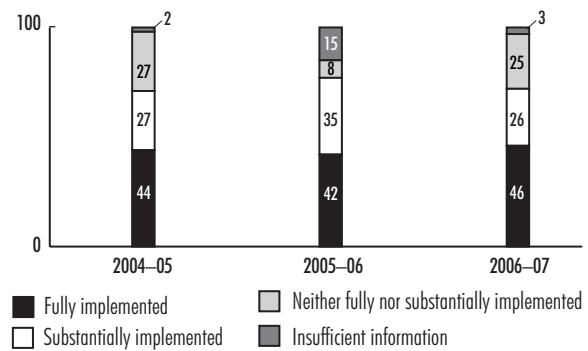
At the request of the Committee, the Department agreed to provide an action plan to the Office of the Auditor General and the Public Accounts Committee. It also agreed to provide the Committee with progress reports every six months on the implementation of recommendations made by the Auditor General, beginning in September 2007 and continuing until the recommendations are fully implemented.

Organizations implement our performance audit recommendations. Departments and agencies are responsible for taking corrective action and improving their management practices. We have established that a period of four years is a reasonable period of time for an organization to fully implement our recommendations. Annually, we request an update from these organizations on their progress in implementing these recommendations. The information we receive is self-reported by the organizations and is not subject to any formal review or audit. Therefore, the Office does not verify the reliability of the information provided.

In 2006–07, departments reported that they had fully implemented 46 percent of the performance audit recommendations we tabled four years ago and had substantially implemented 26 percent (Exhibit 19). (See methodological endnote 4 under Section IV—Supplementary Information.)

We hope that this percentage will increase over time. It is important to note that we have refined the presentation of the implementation rates. The values shown no longer include recommendations that have become obsolete since the time of tabling. In addition, we have separated out the percentage of recommendations for which we have insufficient information to report a level of implementation.

Exhibit 19—Percentage of performance audit recommendations implemented four years after their publication (unaudited)



Organizations address opinion qualifications and significant deficiencies. For our financial audits and special examinations, we monitor the corrective action taken in response to opinion 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.

For our financial audits in 2005–06 and 2006–07, no qualifications were issued. For the four special examinations reported this year, two reports noted a significant deficiency. We have not reported on these two organizations previously.

Departments implement their sustainable development strategies. Twenty-seven departments and agencies tabled sustainable development strategies for the period 2007 to 2009. Four other organizations, including our Office, tabled their sustainable development strategies voluntarily.

In 1995, section 23(2)(a) 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 2006, we assessed the actions of 21 organizations in implementing selected commitments from their 2001 and 2004 strategies. Some of the organizations could clearly demonstrate efforts to plan for achieving their commitments; however, as we have reported in previous years, difficulties frequently arose in implementing and/or monitoring them. Departments and agencies could often point to initiatives that address a commitment generally, but they had difficulty demonstrating specific results.

For our next chapter on sustainable development strategies, in addition to monitoring implementation of selected commitments, we have conducted a more detailed audit to determine if the intentions underlying the 1995 amendments to the *Auditor General Act* have been realized. The results of this audit are scheduled to be reported to Parliament in October 2007.

The environmental petitions process contributes to the federal management of specific environmental matters. The 1995 amendments to the *Auditor General Act* require that we monitor and report annually to Parliament 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 responses. Twenty-nine federal departments are required by the *Auditor General Act* to respond to petitions.

In 2006–07, the Office received 37 environmental petitions. Ministers of federal departments are required to respond to petitioners within 120 days. They responded on time to 96 percent of the petitions received in 2006–07.

Canadians have been submitting petitions and ministers have been responding to them for 11 years. This year we looked at past experience to develop future options for strengthening the petitions process. We surveyed petitioners and federal departments, and we interviewed officials of the departments most often petitioned and of other organizations with similar citizen engagement processes. The results of this retrospective are scheduled to be reported to Parliament in October 2007.

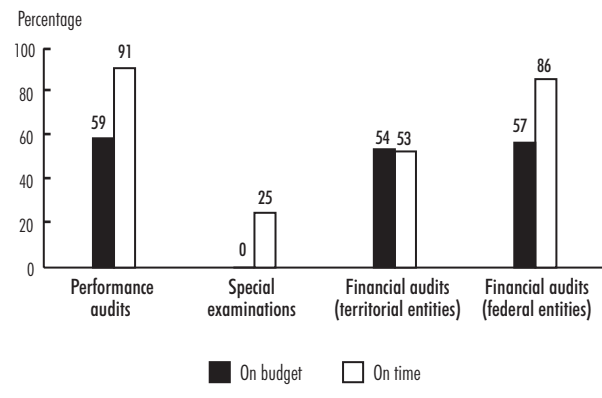
Our measures of organizational performance

Through selected measures designed to evaluate organization performance, we gather information on how efficiently and effectively the Office itself is functioning (Exhibit 20). The measures involve items for which the outcome is largely under the control of the Office.

Our work is delivered on time and on budget

On time. For performance audits, the Office determines when individual audit reports will be tabled in the House of Commons; thus, there are no statutory deadlines for these reports. However, we do communicate to the Public Accounts Committee our planned tabling schedule for performance audits for the coming fiscal year. In our *2006–07 Report on Plans and Priorities*, 36 performance audits were listed as planned. Of these, 6 were cancelled. Of the remaining 30, 3 were delayed and reported in May of 2007–08. The remaining 27 performance audits were tabled on the planned reporting date. In addition, there were 2 territorial performance audits planned and reported that had not been explicitly listed as planned in the *2006–07 Report on Plans and Priorities*. Finally, there were 5 additional performance audits tabled in 2006–07 that were not originally planned. In summary, of the original 38 planned performance audits, 6 were cancelled, 32 were actually completed, 3 were delayed and 29 (91 percent of the 32 completed audits) were delivered on time. Details of the audits tabled are included in Section IV—Supplementary Information.

Exhibit 20—Our work is delivered on time and on budget



For most of our financial audits and for special examinations, there are statutory dates set for the transmission of our reports. In 2006–07, we completed 86 percent of our financial audits of federal organizations and 53 percent of our financial audits of territorial organisations prior to the required deadline. We continue to work with organisations in the northern territories to improve the timeliness of financial statement reporting.

We completed four special examinations during 2006–07; only one of these was delivered by the statutory deadline. One of our management committees received a report on this situation. Many reasons have been identified for why these reports have not been completed on time, including the following:

- challenges in dedicating resources at the necessary time, with the necessary expertise, given the cyclical nature of the workload associated with special examinations;
- long time frames involved in confirming the facts found in the reports and in discussing our findings with management of the corporations being examined; and
- long time frames in scheduling reviews of our reports by the boards of directors or audit committees due to the infrequency of their meetings.

A decision was made to plan to transmit future completed reports six months before the statutory date. In addition, a set of key principles to be applied in planning special examinations and an action plan to redress this situation has been developed.

On budget. In all instances, being on budget is defined as completing the audit within 15 percent over the originally budgeted hours for the audit. This figure recognizes that factors outside the control of the audit team, such as client readiness and the number and complexity of audit issues identified, can affect performance.

For performance audits completed during 2006–07, 59 percent were completed on budget. The federal election in early 2006 resulted in our February 2006 status report being delayed. This in turn delayed subsequent reports tabled during 2006–07. Due to these delays, we needed to revisit previous audits that had been completed but not yet tabled in order to ensure that the information published was current. This additional work led to certain budget overruns.

For financial audits, the percentage of reports on budget was 57 percent for federal organizations and 54 percent for territorial organizations. We have started implementing a more rigorous budget setting and management process in an effort to improve our performance in this area.

Finally, for special examinations, none of the reports were completed on budget during 2006–07. The Office is currently implementing significant changes for allocating and overseeing budgeted audit hours, in an attempt to improve the budget setting and management process.

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 website under About Us. We have started planning for the next review of our quality management framework for all of our audit product lines and related services, and we intend to have the review carried out in 2009–10.

In addition, the provincial institutes of chartered accountants review our compliance with professional standards for financial audits about every four years 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, performance audits, and assessments of agency performance reports by assessing their quality and compliance with our quality management frameworks. The frameworks are based on Office policies and professional standards. The reviews assure the Auditor General of the quality of our audits and that they are being conducted according to our quality management frameworks. They also provide managers with suggestions for improvement.

In 2006–07, we completed 11 internal practice reviews of financial audits, performance audits, and assessments of agency performance reports conducted in 2005–06. The reviews concluded that the audits and assessments were conducted according to our quality management frameworks. Suggestions for improvement focused on documentation and the quality reviewer function in both financial and performance audits and on control testing and reliance in financial audits. Suggestions for improving the assessment of agency performance reports focused on improvements practice-wide, such as improving guidance and reducing costs.

We also completed the review of progress toward a new approach to auditing the summary financial statements of the Government of Canada. Suggestions for improvement focused on clarifying the strategic direction for the audit and improving risk analysis and control assessment work. As they are completed, we publish the summaries of results of our practice reviews on our website 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 2006–07, we worked on the third year of our three-year internal audit plan. A summary of our three-year plan is available on our website under About Us. Originally, three internal audits were slated for completion; however, resource constraints in each of the areas to be audited prevented carrying out the plan. As a result, we completed and reported on the management of the human resources and professional development function. We found that the function was adequately managed and we suggested improvements in planning, training, and reporting. As they are completed, we publish the summaries of results of our internal audits on our website under About Us.

We provide a respectful workplace

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

- 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. 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 methodological endnote 5 under Section IV—Supplementary Information.)

Our challenge during the next year will be to maintain the positive momentum and continue to look for ways to improve. In response to the 2006 Employee Survey, the Executive Committee committed to taking action in the following six areas: supervisory effectiveness, training, promotion process

(AP to APL), career development, staffing, and effective communications. Implementation of the Corporate Action Plan began in December 2006. Our goal is to ensure that all the initiatives identified are well under way or completed before our next employee survey in the spring of 2008.

A bilingual workforce. The Office has improved its bilingual capacity in the management group, particularly for assistant auditors general and principals, with an increase from 62 percent to 82 percent from 2005–06 to 2006–07. Emphasis will continue to be placed on second language training in 2007–08. A new curriculum is in place to help employees achieve the desired level. (See methodological endnote 6 under Section IV—Supplementary Information.)

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

Retention rate. The retention rate of 86 percent has increased slightly in the past year compared with 2005–06 and remains below our target of 90 percent. A Retention and Recruitment Strategy was developed and greater attention was focused on specific target groups, especially in the accounting field, in order to increase our retention capacity.

Other results

The Office also monitors activity in certain other key areas. This information is used, when possible, to improve the operations of the organization.

Informing the media and the 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 monitor and analyze our media coverage on an ongoing basis. Most media coverage focused on our reports to Parliament. We found that our reports were well understood and, with a few exceptions, reported accurately.

Our international contributions

The Office of the Auditor General has more than 50 years of experience in working with the international community in developing professional standards, building capacity, sharing knowledge, and conducting audits of international institutions. These activities have helped improve the Office's own legislative audit practice, fostered the transfer of knowledge and skills between audit offices, and strengthened organizations in the United Nations system. Our international strategy guides the international activities of the Office while positioning the Office to meet new opportunities and challenges in the future.

International accounting and auditing standards are influencing Canada's public and private sector standards. Setting of accounting and auditing standards is shifting from the domestic to the international arena. The Office plays an active role in shaping these standards, particularly as they relate to the public sector.

The Office is a member of the International Organization of Supreme Audit Institutions (INTOSAI) and is a member of several of its committees, including the Professional Standards Committee. The Auditor General chairs its Subcommittee on Supreme Audit Institution Independence. In April 2007,

the Code of Independence that it helped develop was approved by the Professional Standards Committee and will become an International Standard of Supreme Audit Institutions in the fall of 2007.

The Office is also a member of the Financial Audit Guidelines Subcommittee supporting and actively contributing to the work of developing high-quality guidelines for financial audit that are globally accepted for the audit of financial statements in the public sector.

Employees in the Office participate in various task forces of the International Auditing and Assurance Standards Board (IAASB) to revise and develop International Standards on Auditing (ISA). This expert participation helps to build public sector considerations into these international standards.

The Auditor General currently chairs the INTOSAI Working Group on Environmental Auditing (WGEA). The working group assists supreme audit institutions to better understand environmental issues as well as to build their capacity to conduct audits of their governments' environmental protection and sustainable development activities, by preparing guidance materials, training auditors, and facilitating knowledge sharing among members. The Auditor General will continue to support WGEA activities in the future and will provide particular assistance to the Auditor General of Estonia, who becomes the next WGEA Chair in late 2007.

The International Audit Office Assistance Program of the CCAF-FCVI Inc. was established in 1980 to strengthen performance auditing in national audit offices. Funded by the Canadian International Development Agency, the program brings auditors from national audit offices to Canada for nine months of training in performance auditing, accountability, and governance. Training is provided by our Office and that of the Vérificateur général du Québec. Since 1980, the program has trained over 179 fellows from 50 developing countries.

The Auditor General has recently completed its audit mandate of the United Nations Educational, Scientific and Cultural Organization (UNESCO) and will shortly complete its audit mandate of the International Civil Aviation Organization.

In early 2007, the Office was selected as the external auditor of the International Labour Organization effective in 2008.

Sustainable development commitments and results

Our 2007–2009 Sustainable Development Strategy was tabled in Parliament in December 2006. It can be accessed online at: <http://www.oag-bvg.gc.ca/domino/other.nsf/html/200612sdse.html>. It presents our plans to further integrate environmental considerations into our audit selection and planning decisions and our operational decision making. Work has begun on all the initiatives presented in the strategy, with efforts to date indicating that we are on track to meet all of our targets (Exhibit 21).

Exhibit 21—Summary of our key sustainable development commitments and targets

Commitment	Target
Finalize the strategic audit plan for the Commissioner of the Environment and Sustainable Development.	By 2008
Prepare 100 percent of long-term audit plans and individual performance audits using the Office's environmental risk assessment guide.	By the end of 2007
Build a small specialist team dedicated to providing environmental and sustainable development advice and audit assistance.	By 2008
Provide our auditors with new training on the identification of environmental and sustainable development risks that are applicable to federal government organizations.	Starting in 2007
Refine and improve our generic audit criteria for environmental management in Crown corporations.	In 2007
Provide enhanced support and advice to audit teams conducting special examinations in 100 percent of cases, where important environmental risks for Crown corporations have been identified.	Starting in 2007

Section III—Financial Performance

Parliamentary appropriations used

In 2006–07, the Office used \$77.8 million of the \$78.6 million in parliamentary appropriations approved. As a result, the Office lapsed \$0.8 million in 2006–07 (\$2.8 million in 2005–06). The \$78.6 million is comprised of \$73.8 million in Main Estimates and a further \$4.8 million in Supplementary Estimates and adjustments and transfers. The \$4.8 million was routine in nature, including mainly carry-forward funding (\$3.1 million) and various salary related entitlements, such as salary increases (\$1.7 million).

Like 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.

Cost of operations

In 2006–07, the net cost of operations for the Office was \$90.3 million, as reported in our audited financial statements (page 48). This increase of \$5.0 million (5.9 percent) from 2005–06 is largely due to an increase in salary and benefits of about \$4.0 million (6.3 percent). The increased salary costs are due to a higher number of employees in 2006–07 and the annual economic increases. Refer to note 7 of the financial statements (page 51).

Full-time equivalents used

The Office used 610 full-time equivalent (FTE) employees in 2006–07, which represented 102.5 percent of our budget of 595 FTEs. The number of FTE employees is higher than budgeted because the Office hired additional staff to work on new audits without requesting additional funding for 2006–07, pending determination of our increased resource requirements. Additional staff were also hired in anticipation that a higher rate of turnover would continue and because recruiting some of these resources, particularly accounting professionals, was becoming increasingly difficult. This is an increase of 33 in the number of FTE employees used from last year. In 2005–06, we used 577 FTE employees, representing 98 percent of our budget of 590 FTE employees.

As of 31 March 2007, the Office had 623 employees. This is higher than the 610 FTE employees used in 2006–07 because employee turnover and the employment of students and part-time staff results in the use of less than a full FTE per person.

Activities and operations

During 2006–07, the Office

- tabled 30 performance audits of federal departments and agencies and one related report;
- tabled 2 performance audits relating to the monitoring of sustainable development activities and the environmental petitions process;
- tabled 2 performance audit reports with territorial legislative assemblies;

- 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 4 special examinations of Crown corporations, and
- assessed the performance reports of 3 federal government agencies.

Analysis by subactivity

The *2006–07 Report on Plans and Priorities* was based on planned spending of \$83.5 million. We have since received parliamentary approval and revised our planned spending (forecast spending) to \$86.7 million in our *2007–08 Report on Plans and Priorities*. Both 2006–07 actual and revised planned spending are presented in Table 4—Financial and human resources and subactivities (page 37).

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 hours used on individual audits have the most significant impact on audit costs.

The largest increase in the costs of subactivities was for the financial audits of Crown corporations, territorial governments, and other organizations (\$3.1 million), followed by the performance audits (\$1.4 million), and monitoring sustainable development activities and the environmental petitions process (\$0.4 million). The largest decrease in the costs of subactivities was for the special examinations of Crown corporations (\$0.3 million). These variances between current and prior year subactivity costs are based on the Statement of Operations in our audited financial statements (page 43).

Performance audits and studies

(\$ millions)	2006–07		2005–06
	Actual costs	Budget	Actual costs
Performance audits and studies	44.0	43.9	42.6

Overall, the level of effort in this subactivity is comparable with last year’s effort. The higher costs (\$1.4 million) are mostly due to slightly higher salary costs resulting from the economic increases. Most of our performance audits are done across two fiscal years. The costs incurred in the reporting period include a portion of the costs of audits reported in the fiscal year as well as costs incurred for audits scheduled to be reported in future fiscal years.

In addition to our performance audit chapters on federal government programs, the performance audits and studies subactivity includes performance audits for territorial legislative assemblies. This year, we invested more time on this type of work and we plan to continue this increased level of investment in future years. The additional work for territorial legislative assemblies was offset this year by a reduction in other types of work included in this subactivity, such as gaining knowledge of entities’ business activities and risk assessment work done through the Office’s one-pass planning process.

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

(\$ millions)	2006–07		2005–06
	Actual costs	Budget	Actual costs
Financial audits—Crown corporations, territorial governments, and other organizations	26.6	24.1	23.5

Year-over-year variance

The financial audit work experienced the largest increase in total costs of our product lines (\$3.1 million). The increase was mostly due to new audit work (\$2.0 million) and to additional work on certain audits that had been delayed (\$1.5 million). Included in these increases are higher salary costs of about \$0.5 million. These increases were offset by a reduction in the audits of international organizations due to the completion of the Office’s mandate for the United Nations Educational Scientific and Cultural Organization (UNESCO) biennial audit (\$0.35 million). Although we had planned to achieve efficiencies on some of our audits, these were offset by the impact of new accounting standards and other audit issues, particularly on our larger financial institution-type Crown corporations and entities in Nunavut.

Variance from budget

We began and/or completed new audits under existing legislation and changes to our mandate, including the audits of a number of entities, such as the Canada Post Corporation (joint audit), the National Research Council, the Public Service Commission, the Public Sector Pension Investment Board (joint audit), and the opinions to provincial governments on control procedures at the Canada Revenue Agency. In setting our budgets, we underestimated the complexity, the level of audit effort, and the support needed from the entity for these engagements. This resulted in an impact of about \$0.5 million.

We substantially increased our efforts to complete a number of territorial audits that had experienced delays, related primarily to entity readiness. The extent of the additional work was not fully recognized at the time our budgets were established, and it had an impact of about \$1.1 million on the most-affected audits.

Over the last few years, we have been required to do a substantial amount of additional work due to the impact of rapidly changing accounting and auditing standards. The impact of these new requirements affects all entities to some degree, but the most significant impact is on the audits of financial institution-type Crown corporations. We were not able to achieve efficiencies to offset these additional new costs, which had an unplanned impact of about \$1.0 million.

Audit of the summary financial statements of the Government of Canada

(\$ millions)	2006-07		2005-06
	Actual costs	Budget	Actual costs
Audit of the summary financial statements of the Government of Canada	4.7	4.8	4.8

The costs of this subactivity include the audit of the summary financial statements of the Government of Canada and the related audit work on the assessment of financial controls in departmental and management information systems. While the overall costs related to the audit of the summary financial statements were less than the previous year and less than budgeted, there are two key components that make up this work.

The first is the year-end work on the summary financial statements, where costs increased this year as a result of additional auditing requirements related to some entities and additional costs for new staff to gain knowledge of the entities under audit. The second key component of this work is our assessment of financial controls, where we invested less time because federal departments are conducting their own assessments and our resources were allocated to other Office priorities, which offset the increase in the cost for the year-end work.

Special examinations of Crown corporations

(\$ millions)	2006-07		2005-06
	Actual costs	Budget	Actual costs
Special examinations of Crown corporations	4.3	3.9	4.6

The total cost of conducting special examinations of Crown corporations varies depending on the number of examinations under way each year; 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 2006-07, we completed the last special examinations of the fourth cycle and began work on the fifth cycle. This resulted in a planned decrease in the workload. However, the total cost for the special examination subactivity is higher than expected because significant deficiencies were found during the special examination of the Canadian Air Transport Security Authority, which required more time than had been planned. The advancement of target reporting dates for special examinations also resulted in additional audit effort in 2006-07.

In 2006-07, we worked on 12 special examinations of which 4 were completed, compared with the 14 we worked on in 2005-06 of which 10 were completed.

Sustainable development monitoring activities and environmental petitions

(\$ millions)	2006-07		2005-06
	Actual costs	Budget	Actual costs
Sustainable development monitoring activities and environmental petitions	2.8	2.2	2.4

This work includes auditing sustainable development strategies, coordinating the petitions process, monitoring departmental responses, and auditing actions taken by departments in relation to specific petition responses. The cost of this subactivity was higher than planned (\$0.6 million) because some audit work was advanced and the scope of the work was increased, which resulted in costs being higher than originally planned. This also resulted in higher costs than last year (\$0.4 million). The additional work includes an assessment of whether sustainable development strategies are realizing their full potential and a description of the impact of petitions on the federal management of environmental issues.

Assessment of agency performance reports

(\$ millions)	2006–07		2005–06
	Actual costs	Budget	Actual costs
Assessment of agency performance reports	1.1	1.1	1.1

The cost 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, the Canada Revenue Agency, and Parks Canada Agency.

Professional practices

(\$ millions)	2006–07		2005–06
	Actual costs	Budget	Actual costs
Professional practices	7.5	7.3	7.4

In 2006–07, our total costs for professional practices were similar to 2005–06. Note 8 of the audited financial statements (page 51) provides a comparative breakdown of expenses by type for 2006–07 and 2005–06. There was a slight increase in the cost of our international activities and in standard-setting activities.

- The increase in the cost of international activities is the result of a higher level of effort than planned, as part of our role as Chair and Secretariat of the International Organization of Supreme Audit Institutions (INTOSAI) Working Group on Environmental Auditing. Our role as Chair and Secretariat of the Working Group will end in October 2007.
- As the number of accounting and auditing standards issued continue to increase, the cost of participating in standard-setting activities also increases. The new standards have an impact on our audit responsibilities. We comment on proposed new standards, and a number of our senior officials are members of standard-setting bodies.

Financial tables

Table 1—Comparison of planned to actual spending (including full-time equivalents)						
(\$ millions)	2004–05	2005–06	2006–07			
	Actual	Actual	Main Estimates	Planned spending	Total authorities	Total actuals
Legislative auditing	72.0	76.8	73.8	73.8	78.6	77.8
Less: Non-respendable revenue ¹	(1.1)	(1.1)	(0.5)	(0.5)	(0.7)	(0.7)
Plus: Cost of services received without charge	10.1	9.9	10.2	10.2	11.0	11.0
Net cost of program	81.0	85.6	83.5	83.5	88.9	88.1
Full-time equivalents	570	577		595		610

¹ 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.

Table 2—Voted and statutory items					
(\$ millions)		2006–07			
Vote or statutory item	Vote or statutory wording	Main Estimates	Planned spending	Total authorities ¹	Total actuals
20	Program expenditures	65.0	65.0	69.7	68.9
(S)	Contributions to employee benefit plans	8.8	8.8	8.9	8.9
	Total	73.8	73.8	78.6	77.8

¹ The difference between Main Estimates and total authorities represents Supplementary Estimates, adjustments and transfers.

Table 3—Services received without charge	
(\$ millions)	2006–07 actual spending
Accommodations provided by Public Works and Government Services Canada	6.7
Contributions covering the employer's share of employees' insurance premiums and expenditures paid by the Treasury Board of Canada Secretariat (excluding revolving funds)	4.3
Total 2006–07 services received without charge	11.0

Table 4—Financial and human resources and subactivities

Financial resources (\$ millions) 2006–07		
Forecast spending¹	Total authorities	Actual spending
\$86.7	\$88.9	\$88.1
Human resources (full-time equivalents) 2006–07		
Planned	Actual	Difference
595	610	15
Program activity: Legislative auditing (\$ millions)		
Subactivities²	Forecast spending 2006–07	Actual spending 2006–07
Performance audits and studies	\$43.9	\$44.0
Financial audits of Crown corporations, territorial governments, and other organizations	24.1	26.6
Audit of the summary financial statements of the Government of Canada	4.8	4.7
Special examinations of Crown corporations	3.9	4.3
Sustainable development monitoring activities and environmental petitions	2.2	2.8
Assessments of agency performance reports	1.1	1.1
Professional practices	7.3	7.5
Sub-total	87.3	91.0
Less: Non-respendable revenue	(0.6)	(0.7)
Net cost of operations reported in our financial statements		90.3
Differences due to accrual accounting (GAAP) ³		(2.2)
Net cost of program	\$86.7	\$88.1

¹ Forecast spending is as reported in the *2007–08 Report on Plans and Priorities*.

² We have allocated the cost of audit services to each subactivity.

³ The net cost of operations reported in our audited financial statements, prepared in accordance with Canadian generally accepted accounting principles (GAAP), is \$90.3 million, or \$2.2 million more than the net cost of program reported above. The difference is due to the accounting treatment and the funding of capital assets, employee benefits, and prepayments.

Table 5—Contracting activity for professional services

	Original contracts for less than \$25,000 ¹			Original contracts for \$25,000 or more ¹		
	(\$ thousands)	Number	Percentage	(\$ thousands)	Number	Percentage
Competitive contracts	56	4	1	1,461	22	96
Non-competitive contracts	4,490	528	99	93	1	4
Total	4,546	532	100	1,554	23	100

¹Fees only, excluding GST and expenses.

All contracts for professional services and procurement of goods and other services awarded by the Office with values over \$10,000 (with GST) are reported on our Web site.

Table 5 highlights the Office's contracting activity for professional services in 2006. The Auditor General's power to enter into contracts for professional services is governed by subsection 15(2) of the *Auditor General Act*. 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. For contracts with a value close to \$25,000, the principle of best value is used to select a contractor. Contract managers are required to contact other consultants prior to making a selection. Contracts that exceed the North American Free Trade Agreement (NAFTA) threshold follow NAFTA rules.

In 2006, the majority of contracts were awarded by the Office on a noncompetitive basis. Eighty percent of these contracts had original values of \$15,000 or less. In 2006, we awarded one contract for \$92,700 on a noncompetitive basis for legal advice related to an audit.

Of the 22 competitive contracts greater than \$25,000, 8 were for contracts for language training services awarded as a result of a Request For Standing Offer advertised through the MERX system.

Table 6—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 Generals is available on our website under About Us.

The Office follows the Treasury Board Travel Directive, rates, and allowances, and the Treasury Board Hospitality Policy.

Table 7—Office memberships¹

	(\$ thousands)	2006–07
CCAF-FCVI Inc.		380.0
Conference Board of Canada		14.8
Association of Professional Executives of the Public Service of Canada		8.5
Head of Federal Agencies Secretariat		6.0
Public Policy Forum		5.5
Association des institutions supérieures de contrôle ayant en commun l'usage du français		4.0
International Organization of Supreme Audit Institutions (INTOSAI)		3.9

¹The 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.

Table 8—Compensation and benefits

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

Position	FTEs ¹	Salary (\$)	Bilingual bonus (\$)	Performance pay (\$)	Automobile ² (\$)	Club membership ³ (\$)	Total (\$)
Auditor General	1	291,100 ⁴			2,475	579	294,154
Deputy Auditor General	1	192,410–230,320		0–18,200			192,410–248,520
Assistant auditors general and Commissioner of the Environment and Sustainable Development	12	136,825–181,045		0–18,200		579	136,825–199,824
Senior principals	5	109,020–157,945		0–15,800			109,020–173,745
Principals	55	109,020–140,610		0–14,100			109,020–154,710
Senior directors	1	85,075–126,365		0–12,600			85,075–138,965
Directors	107	85,075–112,825		0–11,300			85,075–124,125
Auditors	244	38,218–92,160	800	0–3,000			38,218–95,960
Audit service officers	79	51,869–86,070	800				51,869–86,870
Audit service specialists	105	32,430–61,302	800				32,430–62,102
	610						

¹ Full-time equivalents (FTEs) utilized in the fiscal year 2006–07.

² Taxable benefit for the personal use of an automobile for the 2006 calendar year.

³ The Office paid a club membership for the Auditor General and the former Commissioner of the Environment and Sustainable Development.

⁴ 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.

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 *2006–07 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. Selected 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 selected 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.

Handwritten signature of Sheila Fraser in black ink.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
22 June 2007

Handwritten signature of Jean Landry in black ink.

Jean Landry, CGA
A/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 2007 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 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

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

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

Ottawa, Canada
22 June 2007

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

	2007	2006
Assets	(in thousands of dollars)	
Current assets		
Due from the Consolidated Revenue Fund	6,642	5,161
Accounts receivable	680	1,532
Prepaid expenses	265	418
	7,587	7,111
Capital assets (note 4)	4,388	5,763
	11,975	12,874
Liabilities and Deficit		
Current liabilities		
Accounts payable and accrued liabilities		
Due to employees	3,605	2,761
Due to others	2,401	2,912
Vacation pay	3,360	2,846
Current portion of employee future benefits (note 5)	2,668	2,863
	12,034	11,382
Employee future benefits (note 5)	10,843	10,196
Deficit (note 6)	(10,902)	(8,704)
	11,975	12,874

Contingencies (note 9)

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

Approved by

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Jean Landry

Jean Landry, CGA
A/Comptroller and
Senior Financial Officer

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

	2007	2006
Expenses (note 7)	(in thousands of dollars)	
Performance audits and studies	43,942	42,572
Financial audits of Crown corporations, territorial governments, and other organizations	26,600	23,542
Audit of the summary financial statements of the Government of Canada	4,704	4,797
Special examinations of Crown corporations	4,342	4,588
Monitoring sustainable development activities and the environmental petitions process	2,838	2,449
Assessments of agency performance reports	1,063	1,138
Total cost of audits	83,489	79,086
Professional practices (note 8)	7,498	7,365
Total cost of operations	90,987	86,451
Costs recovered		
International audits	478	901
Other	200	212
Total costs recovered	678	1,113
Net cost of operations	90,309	85,338

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

	2007	2006
	(in thousands of dollars)	
Deficit, beginning balance	(8,704)	(8,959)
Net cost of operations	(90,309)	(85,338)
Parliamentary appropriations used (note 3)	77,767	76,798
Services provided without charge by other government departments (note 7)	11,022	9,908
Costs recovered	(678)	(1,113)
Deficit, ending balance	(10,902)	(8,704)

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

	2007	2006
Operating activities	(in thousands of dollars)	
Cash payments	(77,267)	(77,767)
Cash receipts	1,462	1,074
Parliamentary appropriations used (note 3)	77,767	76,798
Cash provided from operating activities	1,962	105
Investing activities		
Capital asset acquisitions	(485)	(837)
Proceeds from the disposal of capital assets	4	3
Cash used in investing activities	(481)	(834)
Increase (Decrease) in Due from the Consolidated Revenue Fund during the year	1,481	(729)
Due from the Consolidated Revenue Fund, beginning of year	5,161	5,890
Due from the Consolidated Revenue Fund, end of year	6,642	5,161

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

Office of the Auditor General of Canada
Notes to the financial statements for the year ended 31 March 2007

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

	2007	2006
	(in thousands of dollars)	
Net cost of operations	90,309	85,338
Less: Expenses not requiring the use of appropriations		
Amortization of capital assets	(1,282)	(1,232)
Write-off of informatics software under development	(578)	–
Services provided without charge by other government departments	(11,022)	(9,908)
Add: Costs recovered	678	1,113
	78,105	75,311
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations ¹	(823)	650
Current year appropriations applied to operations	77,282	75,961
Capital asset acquisitions funded by appropriations	485	837
Current year appropriations used	77,767	76,798

¹Components of this amount are prepaid expenses, due to employees, vacation pay and severance benefits.

b) Reconciliation of appropriations provided to current year appropriations used

	2007	2006
Appropriations:	(in thousands of dollars)	
Voted—operating expenditures	69,720	70,223
Statutory contributions to employee benefit plans	8,834	9,417
Proceeds from disposal of capital assets	4	3
Current year appropriations provided	78,558	79,643
Less: Lapsed appropriations ¹	791	2,845
Current year appropriations used	77,767	76,798

¹Subject to parliamentary approval, the Office can carry forward its lapsed appropriations and adjustments for eligible costs into the next fiscal year up to a maximum of 5 percent of its main estimates operating budget. In 2006–07, this amount is \$1.9 million (\$3.1 million in 2005–06).

4. Capital assets

	2007			2006	
	Cost		Accumulated amortization	Net book value	Net book value
Opening balance	Net additions (disposals)				
(in thousands of dollars)					
Furniture and fixtures	4,345	34	2,399	1,980	2,562
Leasehold improvements	2,651	145	1,014	1,782	1,910
Informatics software	3,919	(453)	3,103	363	936
Informatics hardware and infrastructure	1,578	(692)	697	189	202
Office equipment	1,043	–	998	45	150
Motor vehicle	24	6	1	29	3
	13,560	(960)	8,212	4,388	5,763

Amortization expense for the year ended 31 March 2007 is \$1.28 million (\$1.23 million in 2006).

5. Employee future benefits

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:

	2007	2006
	(in thousands of dollars)	
Office's contributions	6,511	7,015
Employees' contributions	2,825	2,663

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:

	2007	2006
	(in thousands of dollars)	
Severance benefit obligation, beginning of year	13,059	12,533
Expense for the year	1,317	1,062
Benefits paid during the year	(865)	(536)
Severance benefit obligation, end of year	13,511	13,059

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:

	2007	2006
	(in thousands of dollars)	
Salaries and employee benefits	68,332	64,288
Professional services	7,207	7,454
Office accommodation	6,661	6,591
Travel and communication	4,187	3,956
Informatics, informatics maintenance, and repairs, office equipment, and furniture and fixtures	2,273	2,517
Printing and publications services	753	526
Materials, supplies, and other payments	616	740
Write-off of informatics software under development ¹	578	–
CCAF-FCVI Inc.	380	379
Total cost of operations	90,987	86,451

In 2007, the total cost of operations included services provided without charge by other government departments totalling \$11.02 million (\$9.91 million in 2006). This is composed of \$6.66 million (\$6.59 million in 2006) for accommodation and \$4.36 million (\$3.32 million in 2006) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan.

¹A data warehouse software under development to integrate financial information from several source systems is written-off due to the upcoming implementation of a new financial system.

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 and auditing 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.

	2007	2006
	(in thousands of dollars)	
International activities	3,711	3,436
Methodology and knowledge management	2,331	2,481
Canadian Council of Legislative Auditors	541	569
Participation in standard-setting activities	449	370
CCAF-FCVI Inc.	380	379
External review	86	130
Professional practices	7,498	7,365

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 \$5.77 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 2007, the Office incurred expenses of \$22.35 million (\$21.44 million in 2006) and recovered expenses of \$3.66 million (\$1.89 million in 2006) from transactions in the normal course of business with other government departments, agencies, and Crown corporations. These expenses include services provided without charge of \$11.02 million (\$9.91 million in 2006) as described in note 7.

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

	2007	2006
	(in thousands of dollars)	
Accounts receivable	510	803
Accounts payable	619	709

These amounts are included respectively in accounts receivable and due to others on the statement of financial position.

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.

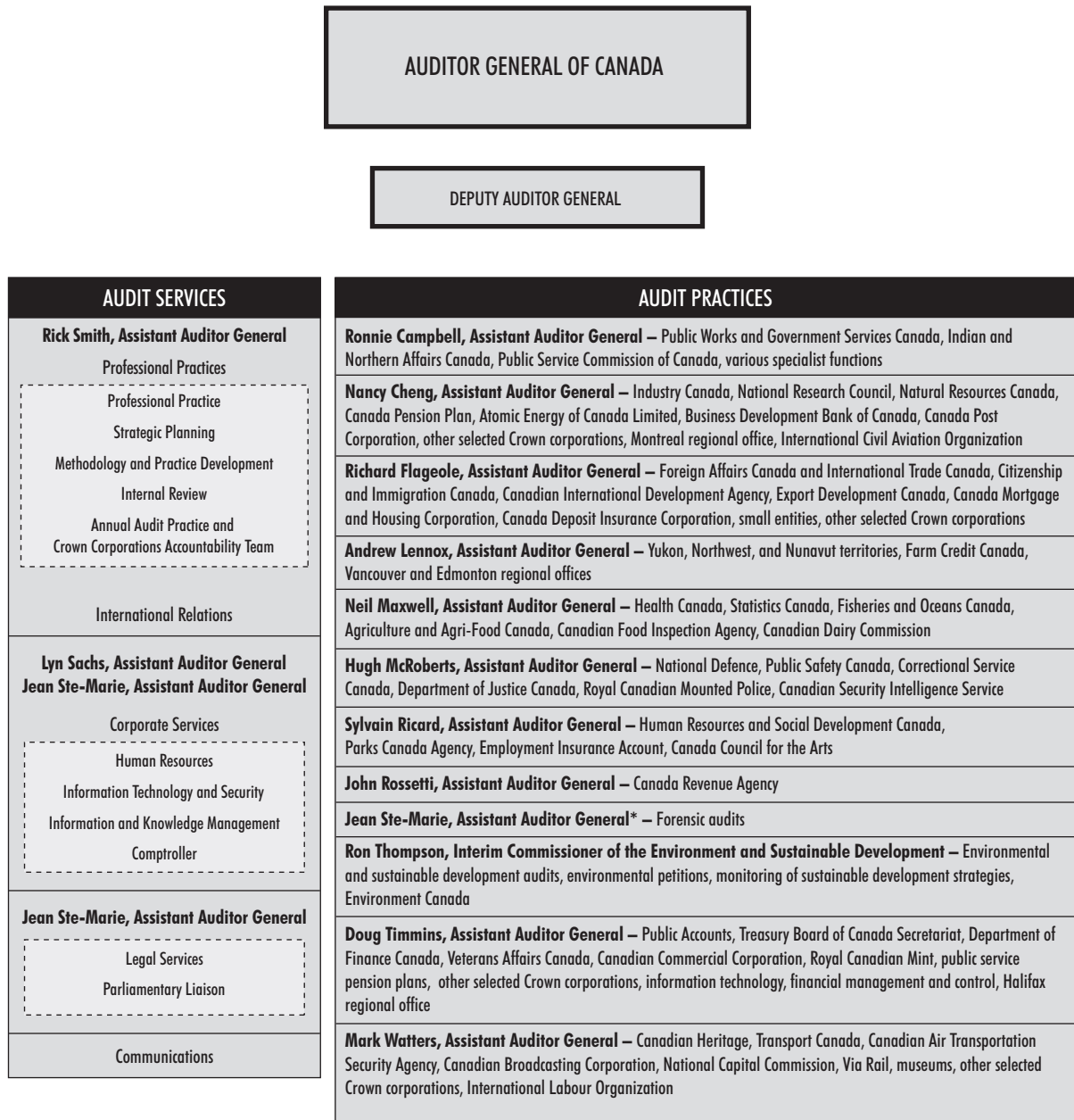
12. Comparative figures

Certain 2005–06 comparative figures have been reclassified to conform to the presentation adopted in 2006–07.

Section IV—Supplementary Information

Organizational chart

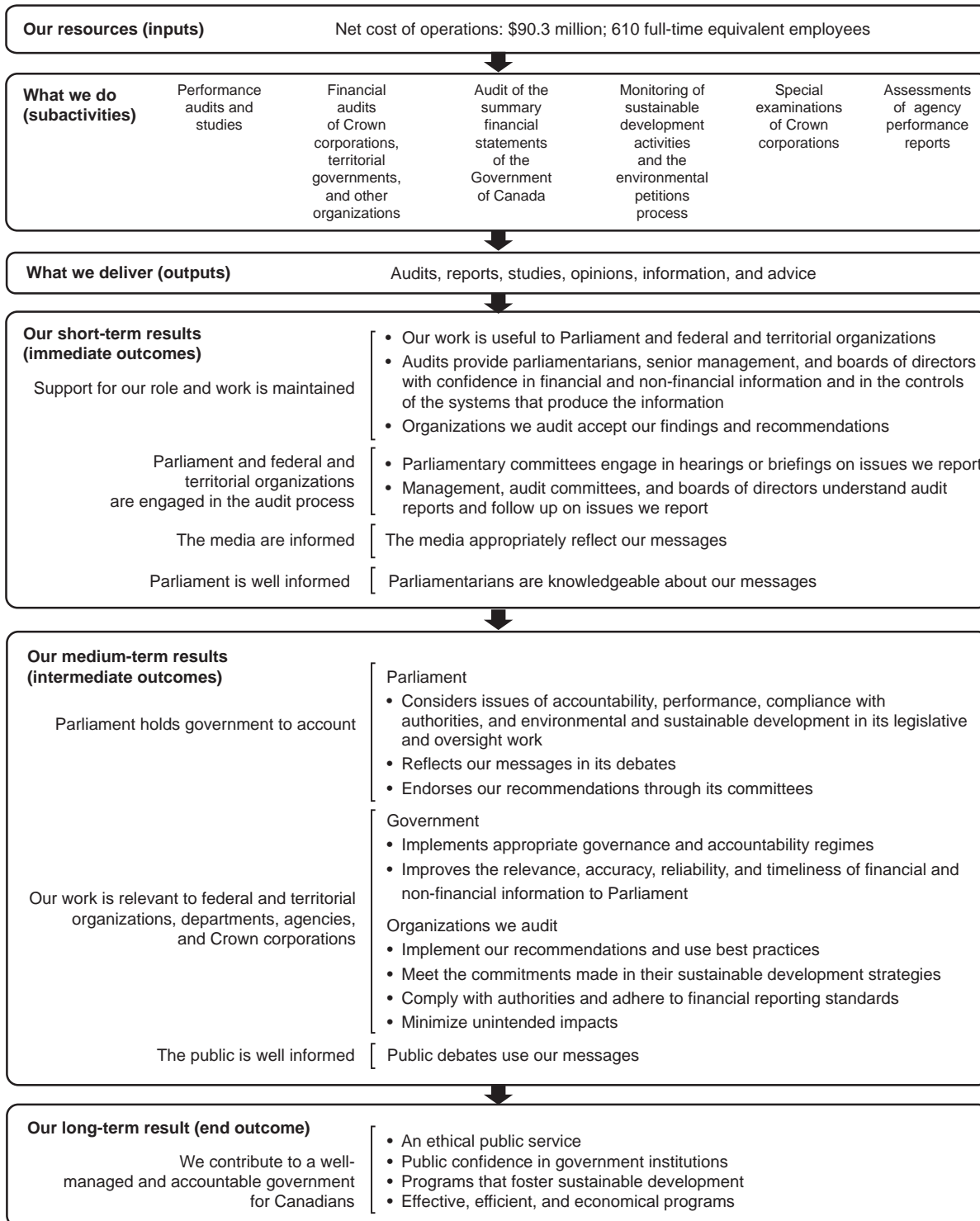
ORGANIZATION CHART OF THE OFFICE OF THE AUDITOR GENERAL OF CANADA



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

7 June 2007

Results chain



Performance audits contributing to the work of Parliament

In Section II—Reporting on Results, a case study illustrating how our performance audit work helps Parliament hold the government to account was presented. Below are three other case studies that illustrate the impact of our audit work.

Relocating Members of the Canadian Forces, RCMP, and Federal Public Service (November 2006 Report, Chapter 5)

Background. We conducted this audit in response to a November 2005 request by the Public Accounts Committee. Results of our audit indicated that the contracts awarded for relocating members of the Canadian Forces, RCMP, and public service were not tendered in a fair and equitable manner. The audit also found that neither the Treasury Board of Canada Secretariat nor departments had developed performance measures to demonstrate whether the Integrated Relocation Program is achieving its objectives or has realized any cost savings. The chapter also reported that Members of the Canadian Forces have been charged amounts for property management services exceeding rates established in the contract.

Result. Between December 2006 and January 2007, the Public Accounts Committee held three hearings on our chapter. In its report of May 2006, the Committee endorsed our audit and all recommendations included in the chapter, requiring departments to provide the Committee with detailed action plans by 30 September 2007 for implementing the OAG recommendations and monitoring the progress achieved in their implementation.

In its report the Public Accounts Committee also re-enforced the expectation that departments would provide the Office of the Auditor General with information necessary for us to conduct our audits. The Committee noted that “by failing to provide the Auditor General with information regarding the existence and use of a ‘logic model’ to generate estimated business volumes ... the departments involved have contravened an important section of the *Auditor General of Canada Act*.”

Climate Change (2006 Report of the Commissioner of the Environment and Sustainable Development, Chapters 1 to 3 [entire focus] and 4 and 5 [some elements])

Background. In 2006, the Commissioner of the Environment and Sustainable Development provided parliamentarians with a series of audits on climate change. Among other things, this report looked at the federal government’s efforts to reduce greenhouse gas emissions and to adapt to the impacts of climate change. We reported that Canada is not on track to meet its obligations to reduce emissions under the Kyoto Protocol. We found that despite \$6.3 billion in announced funding since 1997, there is still no government-wide consolidated monitoring and reporting of climate change performance and spending. We did note that the government has a foundation to build on with several positive programs and practices that have already reduced emissions or that hold promise to do so.

Result. Following the tabling of this report in September 2006, three different parliamentary and Senate committees held meetings to discuss our findings—the Standing Committee on Environment and Sustainable Development (3 October 2006), the Standing Senate Committee on Energy, the Environment and Natural Resources (3 October 2006), and the Standing Committee on Natural Resources (5 October 2006). As well, given this recent work, our opinion was sought by parliamentary committees on several pieces of legislation related to climate change. We appeared before the Standing

Committee on Environment and Sustainable Development (5 December 2006) during its discussion of *Bill C-288—an act to ensure Canada meets its global climate change obligations under the Kyoto Protocol*. We also appeared before the Legislative Committee on *Bill C-30—Canada’s Clean Air Act*.

Managing Government—Financial Information (May 2006 Report, Chapter 1)

Background. This chapter reported that the government’s progress in improving financial information used for decision making remained slow and unsatisfactory. One of the main reasons cited for the unsatisfactory progress was that departments and agencies are not using accrual-based financial information as a regular management tool. Accrual financial information helps users appreciate the full financial scope of government—the resources, obligations, financing, costs, and impacts of its activities, including the costs of consuming assets over time. This more complete picture also helps legislators hold the government more accountable for the stewardship of its assets, the full costs of its programs, and its ability to meet short-term and long-term financial obligations.

More specifically, the audit found that while departments make some use of accrual-based financial information, it is limited because their budgets and appropriations are still largely based on the cash method of accounting. We concluded that the situation will likely remain unchanged until government-wide and departmental budgeting, financial reporting, and appropriations are done on a common basis.

Result. Since the tabling of our report, two different committees have issued reports on the importance of moving to accrual-based budgeting and appropriations in the federal government. The Auditor General appeared before the Standing Committee on Government Operations and Estimates three times during its study of accrual budgeting and appropriations in the federal government. These hearings led to the December 2006 Report of the Standing Committee on Government Operations and Estimates—*Accrual Budgeting and Appropriations in the Federal Government*. Also in December 2006, the Public Accounts Committee recommended that the Government of Canada present to Parliament for discussion and debate a model, including projected costs and benefits, on extending full accrual accounting to budgeting and appropriations.

The Treasury Board Secretariat is currently developing a model for accrual-based budgeting and appropriations. Once developed, this model, including information on implementation requirements, will be presented to Parliament for further discussion and debate.

Report on staffing

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 believes it should also report annually on its staffing.

The table below 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.

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"> The Executive Committee approved a written delegation of authority for human resources management in 2005–06.
2. The Office is resourced to deliver on its staffing priorities.	<ul style="list-style-type: none"> There were about 297 staffing actions in 2006–07. Two staffing officers plus an assistant met the demands. A benchmarking exercise supported the belief that these resources are sufficient.
3. The Office has implemented practices that ensure continuous learning on the subject of staffing.	<ul style="list-style-type: none"> 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. 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.
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"> The Human Resources Committee is tasked with addressing HR issues, such as the Office’s promotion processes. Two members of this committee are nominated by the union. 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 (AAGs). The full Executive Committee regularly addresses issues of staffing, rotation, and succession planning.

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.

1. Senior management gives clear direction and sets priorities that enable values-based staffing.	<ul style="list-style-type: none"> 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 (FTE) positions are allocated to each AAG. The AAGs are then accountable, with the help of HR, to staff these FTE positions as necessary.
2. Human Resources planning, integrated with business planning, enables the organization to identify its current and future human resource needs.	<ul style="list-style-type: none"> In 2006–07, under the direction of the Executive Committee, Human Resources prepared an integrated multi-year recruitment and retention strategy. The strategy includes an analysis of internal and external business issues that will have an impact on the availability and assigning of resources.
3. Staffing is consistent with Human Resources planning and variances can be explained.	<ul style="list-style-type: none"> 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.

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"> • Office practices and procedures conform to all pertinent statutory instruments. In 2007–08 such practices and procedures will be formally documented. • For 2006–07, all of our indeterminate appointments were completed using a competitive process. • During the same period, 65.3 percent of indeterminate appointments were open to the public.
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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"> • All competitions are advertised in both languages internally. Competitions open to people outside the Office are advertised on our website (“Careers”). • The multi-year recruitment and retention strategy is available on the Intranet.
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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 resource information is available to support staffing strategies and decisions.</p>	<ul style="list-style-type: none"> • A semi-annual HR report is produced detailing the number of hires, departures, and turnover rate. It also highlights reasons for departures and anticipated retirement rates. • Monthly reports are produced identifying open positions and positions staffed during the previous month. • Regular meetings are held between staffing officers and managers to review progress on open positions.
<p>2. The delegated organization monitors staffing on a continuing basis.</p>	<ul style="list-style-type: none"> • The Director, Human Resources monitors all exceptions to staffing rules. • There have been no acting appointments exceeding 12 months. • Waivers are obtained from the Auditor General for all hirings at the director/principal level that do not meet language requirements. • Standards for documentation of staffing files are followed. • Apart from our accounting trainees, there have been only four term appointments for periods of over 12 months.

List of completed performance audits

The following is a list of the performance audits planned for in our *2006–07 Report on Plans and Priorities* and the performance audits that were actually completed.

Performance audit	Included in 2006–07 Plan	Reported in 2006–07
Canada Revenue Agency's collection of tax debts	Spring 2006	√
Military recruiting and retention in National Defence	Spring 2006	√
NATO flying training in Canada	Spring 2006	√
The Canadian firearms program	Spring 2006	√
A five-year status report on Aboriginal issues	Spring 2006	√
Management of voted grants and contributions	Spring 2006	√
Acquisition of leased office space	Spring 2006	√
Management of government financial information	Spring 2006	√
National Defence's modernizing of Canada's North American Aerospace Defence (NORAD) system	Fall 2006	Tabled in 2007–08
The Royal Canadian Mounted Police pension and insurance funds	Fall 2006	√
The proper conduct of public business in public safety agencies	Fall 2006	√
Management of financial resources in Health Canada (reported as Allocating Funds to Regulatory Programs—Health Canada)	Fall 2006	√
Large information systems under development	Fall 2006	√
The government's expenditure management systems	Fall 2006	√
Monitoring of the government's progress in human resource modernization	Fall 2006	Cancelled
The British Columbia treaty process	Fall 2006	√
Implementation of the government's innovation strategy	Fall 2006	Cancelled
Use of acquisition and travel cards	Fall 2006	Tabled in 2007–08
Old age security	Fall 2006	√
Government-wide management of personal service contracts	Fall 2006	Delayed to 2008–09
The integrated relocation program	Fall 2006	√
A study of international practices of government evaluation	Fall 2006	Cancelled
Climate change—impacts and adaptation	Fall 2006	√
Federal management of climate change, including the contribution of Sustainable Development Technology Canada	Fall 2006	√
Reduction of greenhouse gases emitted during energy production and consumption	Fall 2006	√
Progress on commitments in departmental sustainable development strategies	Fall 2006	√

Performance audit	Included in 2006–07 Plan	Reported in 2006–07
Environmental petitions	Fall 2006	√
Fleet management and provision of marine navigational services at Fisheries and Oceans Canada	Spring 2007	√
The Royal Canadian Mounted Police forensic laboratories	Spring 2007	*
The Canadian Space Agency and the National Research Council of Canada regulation of medical devices (This audit was reported as Management of Leading Edge Research—National Research Council of Canada)	Spring 2007	√
The federal government's protection of cultural heritage	Spring 2007	√
Passport services	Spring 2007	√
Management of the quality of health statistics	Spring 2007	Cancelled
The integrity of the social insurance number	Spring 2007	√
International tax administration	Spring 2007	√
Management of government: financial information	Spring 2007	Cancelled

√ tabled as planned

*This audit was tabled three months after the planned tabling date to allow the audit team to pursue an issue that came to our attention late in the audit.

Territorial performance audit (not included in 2006–07 Report on Plans and Priorities)	Reported in 2006–07
Report to the Legislative Assemblies of the Northwest Territories and Nunavut on the Worker's Compensation Board of the Northwest Territories and Nunavut (originally due to be tabled in spring 2006)	8 June 2006
Government of Yukon—Capital Project Planning and Delivery Property Management (originally due to be tabled early 2007)	2 Feb. 2007

Other audits tabled, but not listed as planned in the 2006–07 Report on Plans and Priorities

Performance audit (unplanned and not included in 2006–07 Report on Plans and Priorities)	Reported in 2006–07
Expenditure Management System in Departments	28 Nov. 2006
Award and Management of a Health Benefits Contract—Public Works and Government Services Canada and Health Canada	28 Nov. 2006
Protection of Public Assets—Office of the Correctional Investigator	28 Nov. 2006
Role of Federally Appointed Board Members—Sustainable Development Technologies	28 Nov. 2006
Advertising and Public Opinion Research	13 Feb. 2007

List of completed special examinations

Special examination	Completed on time	Less than 3 months late	3 months late or more
Canadian Museum of Nature		√	
Canadian Air Transport Security Authority	√		
Canadian Tourism Commission			√
Canada Lands Company Limited			√

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 for each special examination has been conducted 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, and assume a result of 50 percent.

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%
Performance	Deputy ministers and commissioners	2006–07	90	75	83%	3.9%
Special Examination	Board chairs	Fourth cycle	30	21	62%	9.9%
Special Examination	Chief executive officers	Fourth cycle	34	20	69%	11.9%

2. In the spring of 2007, we surveyed parliamentarians, who were members of four key parliamentary committees at the time our reports were reviewed at those committees. The four committees were the Standing Committee on Public Accounts, the Standing Committee on Environment and Sustainable Development, the Senate Standing Committee on National Finance, and the Senate Standing Committee on Energy, the Environment and Natural Resources.

The survey was conducted in written form, with responses collected and analyzed by an independent consultant to ensure the anonymity of the respondents. In total, 47 questionnaires were sent out. A total of 24 responses were received, for a response rate of 51 percent. This provides a margin of error of +/- 14.3 percentage points, 19 times out of 20.

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 audits reviewed by parliamentary committees) is a ratio of 2006–07 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 3 performance audits.

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. This is the case for 2005–06, raising the percentage of audits reviewed from 36 percent, as previously reported, to 48 percent.

4. 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 ask departments to report on 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 Office does not verify the reliability of information provided by entities for this purpose. The Office did not previously monitor recommendations from government-wide audits and from audits by the Commissioner of the Environment and Sustainable Development (CESD); therefore, they are not included in the statistics in Exhibit 13, for 2003–04, 2004–05, and 2005–06.

During 2005–06, we began monitoring recommendations directed to specific entities from government-wide audits and those from CESD reports. Recommendations not directed to a specific entity continue to be excluded from this monitoring exercise. The Office began reporting on this set of monitored recommendations in last year's performance report. This was to avoid potential confusion with figures compiled using a different methodology. A target for future years was established for the 2006–07 and 2007–08 *Report on Plans and Priorities*.

5. An independent consulting firm conducted a survey of 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.

6. 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, 11 of 73 were excluded; for directors, 4 of 104 were excluded.

Website references

Many items that may be of interest and complement the reporting of our performance are available at the following websites.

Office of the Auditor General of Canada	
Office of the Auditor General	www.oag-bvg.gc.ca
Sheila Fraser, Auditor General of Canada	www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html
Commissioner of the Environment and Sustainable Development	www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu8_e.html
<i>Auditor General Act</i>	laws.justice.gc.ca/en/A-17/index.html
<i>Financial Administration Act</i>	laws.justice.gc.ca/en/F-11/index.html
Reports to Parliament	www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html
Observations of the Auditor General on the Financial Statements of the Government of Canada	www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html
Publications	www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html
Practice review and internal audit reports	www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html
External review reports	www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html
Sustainable Development Strategy, 2003–2006	www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html
Parliament	
Parliament	www.parl.gc.ca
Standing Committee on Public Accounts	http://cmte.parl.gc.ca/cmte/committeehome.aspx?lang=1&parlsey=381&jnt=0&selid=e17_&com=8989
Standing Committee on Environment and Sustainable Development	http://cmte.parl.gc.ca/cmte/committeehome.aspx?selectedelementid=e17_&lang=e&comitteeid=10471&joint=0
Standing Committee on National Finance	http://www.parl.gc.ca/common/Committee_SenHome.asp?Language=E&Parl=39&Ses=1&comm_id=13

Government of Canada	
Treasury Board of Canada Secretariat	www.tbs-sct.gc.ca
Results for Canadians: A Management Framework for the Government of Canada	www.tbs-sct.gc.ca/res_can/rc_e.asp
Results-Based Management and Accountability Framework of the Modern Comptrollership Initiative	www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAF02_e.asp
TBS Management Accountability Framework	www.tbs-sct.gc.ca/maf-crg/index_e.asp
Financial Information Strategy	www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp
Bank of Canada	www.bank-banque-canada.ca
Territorial Governments	
Government of the Yukon	www.gov.yk.ca
Government of Nunavut	www.gov.nu.ca
Government of the Northwest Territories	www.gov.nt.ca
Professional organizations	
Canadian Council of Legislative Auditors	www.ccola.ca/index_english.cfm
Canadian Evaluation Society	www.evaluationcanada.ca
Canadian Institute of Chartered Accountants	www.cica.ca/index.cfm/ci_id/17150/la_id/1.htm
CCAF-FCVI Inc.	www.ccaf-fcvi.com/entrance.html
Environmental Working Group (INTOSAI)	www.environmental-auditing.org
Financial Management Institute of Canada	www.fmi.ca
Institute of Internal Auditors	www.theiia.org
International Federation of Accountants	www.ifac.org
International Organization of Supreme Audit Institutions (INTOSAI)	www.intosai.org
United Nations Panel of External Auditors	www.unsystem.org/auditors/external.htm

