



Office of the Auditor General of Canada

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# **2004–05 Estimates**

## **Performance Report**

**Approved**

Sheila Fraser, FCA  
Auditor General of Canada

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

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# Section I—Overview

## Message from the Auditor General of Canada



Sheila Fraser, Auditor General of Canada  
Photo by Michael Bedford

I am pleased to present the Office's *2004–05 Performance Report*.

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

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

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

I am pleased to say that the Commissioner of the Environment and Sustainable Development and I have received excellent support from parliamentary committees over the past year. Last spring and fall, motions were adopted by several standing committees of the House of Commons calling for our Office and senior department officials to appear before them whenever we issue a report on a subject within the committee's mandate. As a result, I was invited to attend numerous committee hearings to inform parliamentarians about our audits. The Commissioner was also invited to discuss specific environmental issues with the Standing Committee on Environment and Sustainable Development, as well as with other parliamentary committees. Members of these committees were very complimentary of the Commissioner's work. In addition, my staff and I were happy to have the opportunity to brief many new members of Parliament on the role of the Office and talk about how we can serve them better.

It is the House of Commons Standing Committee on Public Accounts—sometimes called the “accountability committee”—that has the special responsibility of receiving all our reports. In 2004, the Committee spent a great deal of time considering our 2003 audits on the sponsorship program, advertising activities, and the management of public opinion research.

In April of this year, the Committee issued its report on these audits, stating its unqualified endorsement of our recommendations and expressing great confidence in the methodology we used to arrive at our findings. I was very honoured by the Committee's confidence in the work of my Office. We will continue to work diligently to maintain both our positive relationship with parliamentarians and the quality of our audits.

In 2005, Parliament passed a bill (C-43) to amend the *Auditor General Act* and the *Financial Administration Act*, which expands our mandate in two areas:

- First, we are now able to include foundations in our performance audits. We have had long-standing concerns about the lack of accountability to Parliament of foundations—organizations entrusted with large amounts of public funds to fulfill significant public policy roles. We first highlighted this issue in our Observations on the Public Accounts of Canada in 1997 and have since followed up on this matter on several occasions.
- Second, the government's bill makes us the auditors or joint auditors of all but two Crown corporations. It also adds more Crown corporations to the list of those requiring special examinations every five years.

This bill received Royal Assent on 29 June 2005. I welcome these changes and believe they will result in improved information to Parliament.

Another issue that has received attention from several parliamentary committees during the year is the funding mechanism of Agents of Parliament, including my Office. My Office's budget is currently determined by the Treasury Board Secretariat, one of the organizations we audit. This process has long been a matter of concern to us since it does not sufficiently protect our independence. Discussions have been under way with the Treasury Board Secretariat for some time now, but recent progress has been more promising. I am confident this matter will be resolved soon.

The February 2005 Report of the Standing Committee on Public Accounts was highly complimentary of the work of the Office. In the words of the Committee:

Canada is fortunate to have a highly professional national audit office capable of performing and delivering timely audit services that can draw attention to problems and propose constructive solutions. It is without doubt that the work of the Office has saved government and the taxpayers that support it considerable sums of money, and has contributed to more efficient and effective government administration.

A commendation such as this from a committee of Parliament is a source of great satisfaction for everybody at the Office. We thank the Committee for its ongoing support. I know this will only encourage all of us to rededicate ourselves to serving Parliament and contribute to positive and lasting changes in the lives of Canadians.

**Sheila Fraser, FCA**  
Auditor General of Canada  
19 September 2005

# Performance highlights

## Our performance results

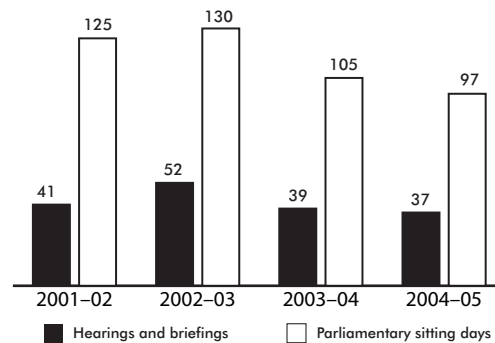
During 2004–05, the Office produced 20 performance audits; over 100 financial audits, including those of the Government of Canada, Crown corporations, and the three territorial governments; 9 special examinations of Crown corporations; and 3 assessments of agency performance reports.

The following highlights our 2004–05 performance results. By March 2006, we will have developed indicators for our product lines and, where appropriate, targets. For detailed information, see Section III—Reporting on Results on page 15.

- **We participated in 37 parliamentary hearings and briefings.**

Of those, 13 were with the Standing Committee on Public Accounts, and 24 were with other House of Commons committees or Senate committees. We participated in fewer hearings than in previous years because the Public Accounts Committee continued to review our 2003 audits on the sponsorship program, advertising activities, and management of public opinion research. As a result, it had less time for hearings on our other audits. For details see page 17. In addition, the Standing Committee on Public Accounts endorsed 85 percent of our 2003–04 performance audit recommendations that it reviewed. For details see page 20.

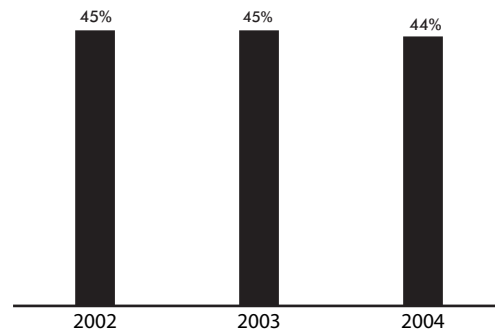
**We participate in parliamentary hearings and briefings**



- **By 2004, departments and agencies had fully implemented 44 percent of our recommendations reported in 2000.**

This area continues to be a challenge. In response, the Public Accounts Committee recently recommended that the Treasury Board Secretariat review departmental responses to our recommendations, and report the results. We also updated guidance for our performance auditors on making action-oriented recommendations. For details see page 21.

**Our performance audit recommendations that are fully implemented**



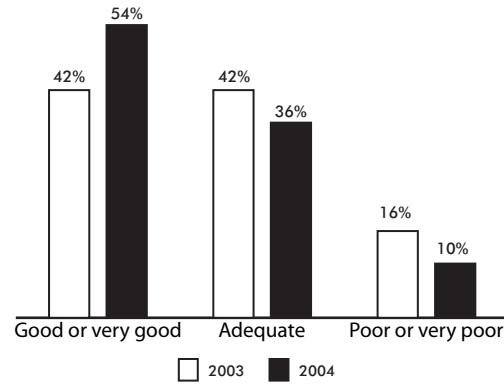
- **The majority of organizations we audit are satisfied that our audits add value.**

In 2004, 54 percent of the organizations we audited rated our performance audits as good or very good at adding value, compared with 42 percent in 2003.

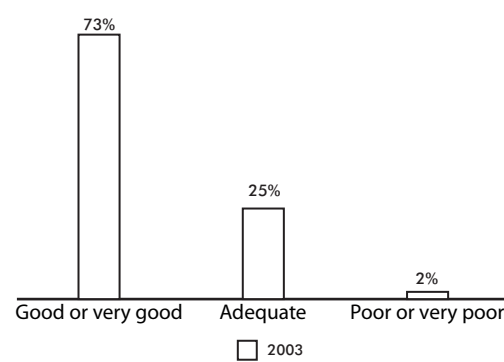
In 2003, 73 percent of chief financial officers and audit committee chairs rated our financial audits as good or very good at adding value to their organization.

The Office conducts a survey every year of performance audits, and every two years of financial audits. For details see page 22.

**Organizations that are satisfied our performance audits add value**



**Organizations that are satisfied our financial audits add value**

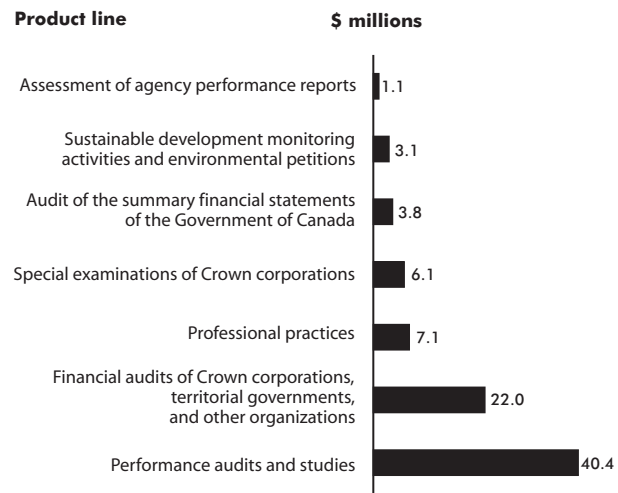


### Our financial performance

The following highlights our 2004–05 financial performance. For detailed information, see Section IV—Financial performance on page 31.

The net cost of operations for the Office in 2004–05 was \$82.5 million, and the Office employed 570 full-time equivalent employees. The chart shows where our resources were spent during the year. We have allocated the cost of audit services to each product line.

**Cost of operations by product line 2004–05\***



\*excludes \$1.1 million in non-responsible revenue



## Management's representation statement

We submit for tabling in Parliament, the Office of the Auditor General of Canada's *2004–05 Performance Report* for the period ending 31 March 2005. Management of the Office of the Auditor General is responsible for preparing this report, which

- is based on the Office's results chain, which is consistent with its program activity architecture;
- presents fair and reliable information;
- provides a basis of accountability of the results achieved with the resources and authorities entrusted to the Office;
- reports its finances based on approved numbers from the Estimates and the Public Accounts of Canada; and
- is based on the reporting principles in the Treasury Board Secretariat's *Guide for the Preparation of 2004–05 Departmental Performance Reports*.

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

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

Sheila Fraser, FCA  
Auditor General of Canada

Robert D'Aoust, CA  
Comptroller and  
Senior Financial Officer

Ottawa, Canada  
19 September 2005



# Section II—Context

## Our strategic plan

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

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### Exhibit 1—The strategic plan for the Office of the Auditor General of Canada: An excerpt

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#### Our vision

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



#### We contribute to

- Accountable government
- An ethical and effective public service
- Good governance
- Sustainable development
- The protection of Canada's legacy and heritage



#### We do this by

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



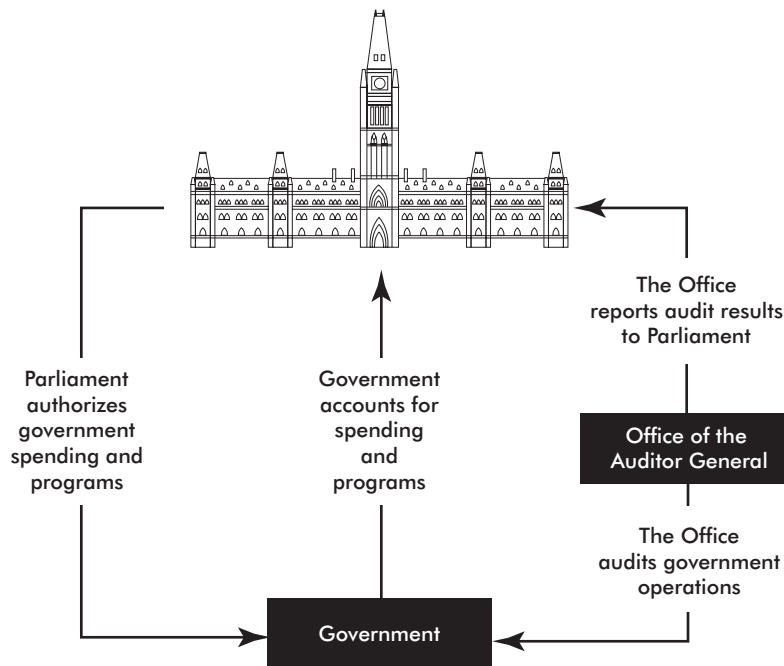
#### Our values

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

## About us

**Agent of Parliament.** The Auditor General is an Agent of Parliament. We are independent from the government and report directly to Parliament (Exhibit 2).

### Exhibit 2—The Auditor General’s role as an Agent of Parliament



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

**Objectivity and independence.** Maintaining our objectivity and independence from the organizations we audit is critical. Our independence is assured by a broad legislative mandate, freedom from certain government controls, and a 10-year mandate for the Auditor General that is not renewable.

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

- The reports of the Auditor General are presented directly to Parliament.
- The Auditor General is accountable to Parliament and not to the government of the day.
- Funded by Parliament, the Office does not receive fees for its services from the departments, agencies, and Crown corporations that it audits.

- As a separate employer, the Office appoints its employees, has its own classification standards, and performs human resource functions including determining the terms and conditions of employment.
- Auditors ensure their independence by following the Canadian Institute of Chartered Accountants' standards, and the Office's audit policies and its practices and Code of Values, Ethics, and Professional Conduct.
- The Auditor General may, within the total dollar limitations established for the Office in appropriation acts, contract for professional services without the approval of the Treasury Board.

**Funding.** Since 2001, we have been discussing with the Treasury Board Secretariat alternative ways to determine the Office's future funding requirements. The Office is funded by Parliament; however, we negotiate the level of funding with the Secretariat, one of the organizations we audit. The existing process is not sufficiently independent to ensure that our budget is appropriate for meeting Parliament's expectations.

In 2004–05, we continued discussions on a new funding mechanism with the Secretariat. Our discussions extended to the Standing Committee on Public Accounts, the Standing Committee on Access to Information Privacy and Ethics, and the Standing Senate Committee on National Finance. In its 14 February 2005 report, the Public Accounts Committee recommended that a new funding mechanism be established, before November 2005, that safeguards the independence of the Office and ensures that it will be able to meet the expectations of Parliament.

## **What we do: Legislative auditing**

Parliament is responsible for overseeing government activities and holding it to account for its handling of public money.

Legislative auditing plays a central role in holding government to account. It provides objective information, advice, and assurance that parliamentarians can use to scrutinize government spending and performance. Elected representatives need this independent reporting so they can effectively question or challenge the government on its actions.

The Office of the Auditor General of Canada is responsible for auditing the federal government and the three territorial governments—the Northwest Territories, Yukon, and Nunavut.

The Office carries out three types of legislative audit—financial audits, special examinations of Crown corporations, and performance audits (Exhibit 3).

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### Exhibit 3—The Office carries out three types of legislative audits

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**Financial audits.** In our financial audits, we give an opinion on whether the financial statements of the federal government, Crown corporations, territorial governments, and related entities are presented fairly. Auditors test whether financial transactions support the amounts and disclosures in the financial statements. Our financial audits are similar to those in the private sector, except that we have additional responsibilities:

- We are often required to express an opinion on whether transactions examined conform, in all significant respects, to applicable laws and regulations.
- The Auditor General can report on matters that, in her opinion, should be brought to the attention of Parliament.

**Special examinations of Crown corporations.** In our special examinations, the Auditor General provides an opinion on the management of the corporation. The scope of the audit is set by law and includes the entire corporation. The key question special examinations answer is: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively? Every five years, the Auditor General conducts special examinations of most Crown corporations.

**Performance audits.** In our performance audits, we answer these questions:

- Are programs run with due regard for economy, efficiency, and environmental impact?
- Does the government have the means in place to measure effectiveness?

These audits do not question the merits of government policies. Rather, they examine how the government manages its practices, controls, and reporting systems based on its own policies and on best practices. We report our findings to Parliament; these may include areas that are working well and recommendations for improvement.

Each year, the Office normally submits four reports to the House of Commons. The findings are communicated to the media and the public once the reports are tabled in the House of Commons. The reports include

- a report in early fall by the Commissioner of the Environment and Sustainable Development;
- a report in late fall;
- a status report in the winter, which follows up on progress made by the government in responding to recommendations from previous audits; and
- a report in the spring.

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## Who we serve: Parliament

**Standing committees.** Our primary relationship is with the House of Commons' Standing Committee on Public Accounts. In turn, much of the work of the Committee draws on our reports. The Standing Senate Committee on National Finance and other parliamentary committees also rely on our products.

The House of Commons' Standing Committee on Environment and Sustainable Development draws on the work of the Commissioner of the Environment and Sustainable Development.

Committee hearings are an important way for the Office to promote awareness and understanding of the issues in our reports. Hearings also help gain department and agency commitment to implement our recommendations. After hearings, committees may report and make recommendations to the government. Departments and agencies are usually expected to report back to the committees on what they have done in response to their recommendations.

**Territorial legislatures.** As the legislative auditor of the three territories, the Auditor General provides an opinion on their financial statements and reports on other matters. These reports are presented to the territorial legislatures and discussed in hearings of their public accounts committees.

## Our governance structure

**The Auditor General.** The Auditor General leads the Office, and as an Agent 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 11 assistant auditors general.

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

- **The Audit Committee.** It oversees the quality of audit practices and internal controls. It is made up of senior Office auditors and is chaired by a retired senior executive from the private sector.
- **The Panel of Senior Advisors.** It provides strategic advice on the work of the Office, and is composed of representatives from business, the accounting profession, the academic community, and other parties.
- **The Independent Advisory Committee.** It 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. It is made up of senior accountants and financial consultants.
- **Panels on Aboriginal Issues (First Nations, Inuits, and Métis).** They advise the Auditor General on matters affecting Canada's Aboriginal peoples, and include Aboriginal and non-Aboriginal leaders.

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

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

**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. They are made up of experts with relevant experience from inside and outside the Office with a variety of backgrounds, such as former senior public servants, academics, economists, and First Nations leaders. For example, during 2004–05 the Office sought advice from experts in a wide variety of areas, including environmental management, fisheries management, health care, human resources management, information technology, international relations, money laundering, public administration, national defence, and tax law.

Our organizational chart on page 56 provides more detail on the Office's governance structure.

## How we are held accountable

### Who audits the Auditor General?

Each year, an external auditor appointed by the Treasury Board Secretariat audits the Office's financial statements. Our financial statements are prepared on a full accrual basis of accounting in accordance with generally accepted accounting principles. Our financial statements are included on page 41.

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

### We are accountable to Parliament

We submit our annual Estimates documents to Parliament. The Public Accounts Committee calls on the Auditor General to discuss our reports on plans and priorities, performance reports, and management practices.

### How we assess our work

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 and with due regard for economy, efficiency, effectiveness, and the environment.

Our audit work is also subjected to internal audits and practice reviews and to external reviews by peers. Each year, we publish summaries of the results of our practice reviews and internal audits on our Web site under About Us (Exhibit 4).

Exhibit 4—Practice reviews and internal audits conducted in 2004–05	
Practice reviews	Internal audits
<ul style="list-style-type: none"><li>• Performance audits reported in 2004</li><li>• Annual audits completed in fiscal year 2004</li></ul>	<ul style="list-style-type: none"><li>• Hospitality expenses</li><li>• Classification and compensation</li></ul>

**Practice reviews.** We conduct practice reviews of our product lines—financial audits, performance audits, and special examinations—by assessing their quality and compliance with Office policies and professional standards. The reviews assure the Auditor General of the quality of our audits and identify good practices. In 2004–05, we conducted six practice reviews on performance audits, financial audits, and special examinations, and we were working on another three at year end.

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

In 2004–05, we worked on the first year of our three-year internal audit plan. A summary of our three-year plan is available on our Web site under About Us.



**External review of our performance audit practice.** In 2003 an international team of legislative auditors carried out a peer review of the Office’s quality management framework for performance auditing.

The team reported that our framework was suitably designed and operating effectively. The team’s report highlighted some good practices and made suggestions for improvement. The report and our action plan are available on our Web site under About Us.

**External review of our financial audit practice.** The provincial institutes of chartered accountants review our compliance with professional standards for financial audits, and determine whether our training of chartered accounting students meets the requirements for certification. In the last two years, the financial audit practices of our Ottawa office and regional offices—Vancouver, Edmonton, Montréal, and Halifax—have been reviewed. The reviews concluded that we were following professional standards and meeting the requirements for certification.



## Section III—Reporting on Results

We contribute to a well-managed and accountable government by conducting independent audits and studies that provide objective information, advice, and assurance to Parliament, government, and Canadians.

We also support initiatives that help the Office achieve its long-term result—working collaboratively with legislative auditors and professional organizations, providing a respectful workplace, and operating more effectively.

In Section V, we have included summary information on our key expected results, indicators, and targets from our *2004–05 Report on Plans and Priorities* and on our financial and human resources and product lines.

### Conducting independent audits and studies

We measure and monitor our performance against our results chain. It links what we deliver—audits, reports, studies, opinions, information, and advice—to our long-term result. Our results chain is summarized in Exhibit 5.

We continue to improve the way we measure and report our performance. We are developing indicators for our product lines; by March 2006 we will establish a baseline for the indicators and, where appropriate, set targets.

Legislative auditing contributes to better managed government programs and better accountability to Parliament. To do this effectively, we need to ensure that parliamentarians understand our work and address issues in our reports, and that we understand the needs and interests of parliamentarians.

#### Parliament is engaged in the audit process

**Survey of parliamentarians.** In 2002 we surveyed parliamentarians on their perception of our Office, our credibility, our performance, and on issues they would like the Auditor General to address in the coming years. At that time, 55 percent of parliamentarians indicated that our recommendations and findings had a positive impact on their committee work. (See endnote 1 on page 64.)

We planned to survey parliamentarians again in 2005; however, the 2004 federal election brought many new members to the House of Commons. We considered that these parliamentarians needed time to familiarize themselves with our mandate and our reports. To help parliamentarians get to know us better, we recently sent them an information kit with fact sheets on our role as an Agent of Parliament and on other matters of interest, such as how we select the topics of our performance audits. We will re-examine the timing of our survey.

**Involvement with parliamentary committees.** Appearing before parliamentary committees is one of the most effective ways to assist parliamentarians with their oversight role. We are available to committees whenever they review government activities or programs that we have audited. We work with committee staff to ensure that our appearance before a committee is useful to members. We have also assisted members of several committees with the review process of the government's Estimates.

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**Exhibit 5—A summary of our results chain\***

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**Our long-term result**

We contribute to a well-managed and accountable government for Canadians

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**Our resources**

Net cost of operations in 2004–05: \$82.5 million, 570 full-time equivalents

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**What we do**

- performance audits and studies;
  - financial audits of Crown corporations, territorial governments, and other organizations;
  - audits of the summary financial statements of the Government of Canada;
  - monitoring of sustainable development activities and the environmental petitions process;
  - special examinations of Crown corporations; and
  - assessments of agency performance reports.
- 

**What we deliver**

Audits, reports, studies, opinions, information, and advice

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**Selected short- and medium-term results****Parliament is engaged in the audit process**

**Short-term result.** Parliamentary committees engage in hearings or briefings on issues we report.

p. 15

**Parliament holds government to account**

**Medium-term result.** Parliament considers issues of accountability, performance, compliance with authorities, and environment and sustainable development in its legislative and oversight work.

p. 18

**Parliament endorses our recommendations**

**Medium-term result.** Parliament endorses our recommendations through its committees.

p. 20

**Organizations implement our recommendations**

**Medium-term result.** Organizations we audit implement our recommendations.

p. 21

**Organizations maintain support for our role and work**

**Short-term results.** Organizations we audit accept our findings and recommendations.

Our work is useful to Parliament and federal and territorial organizations

p. 22

**The media and public are well informed**

p. 24

**Our unintended impacts are minimized**

p. 24

**We foster the environment and sustainable development**

p. 24

\*Our complete results chain is available on page 57.

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### Our short-term result

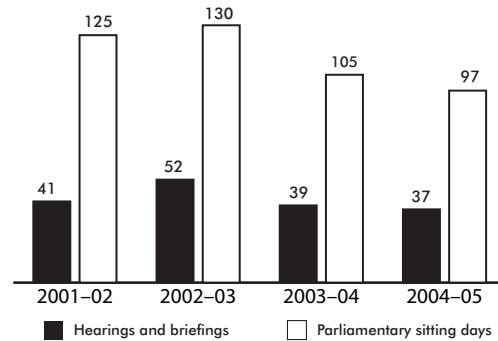
Parliamentary committees engage in hearings or briefings on issues we report.

### What we achieved

- We participated in 37 hearings and briefings, 13 with the Public Accounts Committee and 24 with other parliamentary committees.

Parliamentarians are interested in our performance audits. In 2004–05, we participated in 37 hearings and briefings: 13 with the Public Accounts Committee and 24 with other committees (Exhibit 6). Other committees reviewed our work more often than in previous years (24 hearings and briefings in 2004–05 compared with 17 in 2003–04). This is largely due to numerous committee motions calling for committees to invite the Office and senior department officials to hearings whenever we issue a report on a subject within their mandate.

Exhibit 6—We participate in parliamentary hearings and briefings



In addition to appearances before parliamentary committees, the Auditor General and her team were the first witnesses to appear before the Commission of Inquiry into the Sponsorship Program and Advertising Activities headed by Mr. Justice John H. Gomery in September 2004 and were among the last to appear in May 2005. The Prime Minister established the Commission as a result of our audits on sponsorship and advertising.

### Our short-term result

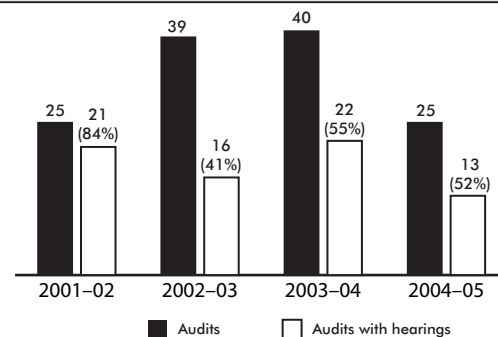
Parliamentary committees engage in hearings or briefings on issues we report.

### What we achieved

- Parliamentary committees held hearings on 52 percent of our 2004–05 performance audit and related products.

The Public Accounts Committee called us for fewer hearings (13 in 2004–05 compared with 22 in 2003–04 and 16 in 2002–03) because it spent many weeks reviewing our 2003 audits of the sponsorship program, advertising activities, and management of public opinion research as well as meeting with other witnesses. As a result, the Committee had less time for our other audits.

Exhibit 7—Parliamentary committees review our performance audit and related products



Fifty-two percent of our 2004–05 performance audits were reviewed by parliamentary committees (Exhibit 7). (See endnote 2 on page 64.)

Committee hearings have covered a wide range of topics and audit reports including, for example, the federal drug benefit program, national security, internal audit, the protection of cultural heritage, and the initiative to combat money laundering. Our Office also participated in hearings on environmental issues including salmon stocks and using the tax system to integrate the economy and the environment.

## Parliament holds government to account

### Our medium-term result

Parliament considers issues of accountability, performance, compliance with authorities, and environment and sustainable development in its legislative and oversight work.

### What we achieved

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

Our 2004–05 work has contributed to the legislative and oversight work of Parliament. The following six examples illustrate the results of our contribution.

### 1. Accountability of Foundations (Chapter 4 of our February 2005 Report)

**Background.** This chapter followed up on issues from our 2002 Report and on observations in the Public Accounts. Since 1997, foundations have received more than \$9 billion from the federal government. The government achieves public policy objectives through foundations, but foundations are not accountable to Parliament through a minister. The money is paid in advance of need, and most of it is still sitting in the foundations' bank accounts and investments.

**Result.** Since our chapter was tabled, parliamentary committees have discussed this issue in several hearings. These discussions were followed by

- motions by parliamentarians, as well as the introduction of a private member's bill (C-277), identifying the need for performance audits of foundations; and
- the budget implementation bill (C-43) that gives our Office the mandate to carry out performance audits in foundations and provide the results to Parliament.

### 2. Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support (Chapter 5 of our November 2004 Report)

**Background.** Despite numerous departmental studies and initiatives, this chapter found that Indian and Northern Affairs Canada made limited progress in addressing most of the issues and recommendations raised in our April 2000 Report on elementary and secondary education, as well as those raised in the June 2000 Report of the Public Accounts Committee.

**Result.** In early 2005, two parliamentary committees held hearings on this chapter. In particular, the Public Accounts Committee questioned Department officials about what the Department intended to do to address our recommendations. Furthermore, the Committee adopted a motion formally requesting an action plan from the Department. It held another hearing where the Minister presented the Department's action plan.

### 3. Federal Management of Prescription Drug Benefits (Chapter 4 of our November 2004 Report)

**Background.** This chapter looked at the drug benefit programs of six federal organizations. These programs provide drug benefits to about one million Canadians. Spending on these programs rose 25 percent over the previous two years, to \$438 million in 2002–03. We found that leadership and co-ordination in providing drug benefits was lacking; data on the drug use of clients were not being systematically assessed and disseminated to health care professionals; and the federal organizations audited had not taken advantage of cost-saving programs to ensure the programs' sustainability.

**Result.** This audit was the subject of four hearings and has resulted in concrete actions by the federal organizations audited. The Federal Healthcare Partnership, which comprises the six federal organizations we audited, is now co-ordinating activities of the partners to address our recommendations.

### 4. Fisheries and Oceans Canada—Salmon Stocks, Habitat, and Aquaculture (Chapter 5 of the Commissioner's 2004 Report)

**Background.** This chapter found that, overall, the Department has made limited progress in addressing our 1997, 1999, and 2000 audit observations and recommendations. There are significant gaps in managing risks, some salmon populations are in trouble, habitat loss continues to occur, and it is not known what long-term effects salmon aquaculture is likely to have on the natural resource or the environment.

**Result.** Parliamentarians referred to our findings during House debates. We participated in three hearings held by the Standing Committee on Fisheries and Oceans. The Committee's recent report on the Fraser River Salmon Fishery cited the key deficiencies identified in our audit. The report also endorsed our recommendation that Fisheries and Oceans Canada collect and analyze information to provide up-to-date assessments on habitat conditions and Pacific salmon stocks that are below Department targets or declining.

### 5. Governance of Crown Corporations (Chapter 7 of our February 2005 Report)

**Background.** This chapter outlined the lack of progress that the government and Crown corporations have made in strengthening the governance of Crown corporations since 2000. The government had taken more than three years to begin to address the key recommendations of our 2000 audit.

**Result.** Two days after our report was tabled, the President of the Treasury Board released a review of Crown corporation governance. The review proposed measures that would address most of the issues that we raised in 2000 and 2005. The government has since taken a number of actions to implement its proposed measures and address our recommendations, including

- amending the *Financial Administration Act* to apply the audit and the special examination provisions in Part X to Crown corporations that had been subject to other frameworks and appoint the Auditor General as auditor or co-auditor of all but two Crown corporations;
- working with Crown corporations to implement the revised process to appoint board members, board chairs, and chief executive officers, and
- facilitating the sharing of lessons learned and best governance practices among Crown corporations.

In spring 2005, we participated in a hearing of the Standing Committee on Government Operations and Estimates to discuss our findings and recommendations.

## 6. Review of the Estimates process (March 2005)

**Background.** We provided all parliamentarians with a revised version of our document *Parliamentary Committee Review of the Estimates Documents*. The revised document reflects recent developments and responds to

- a request from the Senate National Finance Committee to provide a perspective on the role of the Senate and its committees, and
- recommendations of the Standing Committee on Governments Operations and Estimates to provide the document to parliamentarians after each election.

**Result.** Parliamentary committees play a critical role in the review of the Estimates, and we are committed to helping parliamentarians oversee public finances.

We also participated in information sessions and hearings with parliamentarians and their staff to discuss the review of the Estimates. In April 2005, we published a chapter on departmental performance reports, which assessed the performance reports of three departments.

### Parliament endorses our recommendations

#### Our medium-term result

Parliament endorses our recommendations through its committees.

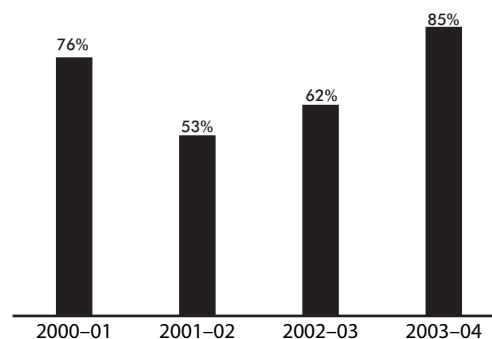
#### What we achieved

In its reports, the Standing Committee on Public Accounts endorsed 85 percent of our 2003–04 recommendations that it reviewed.

In many cases, committee reports from hearings are issued the following fiscal year; therefore, we are reporting on recommendations from our 2003–04 performance audits (Exhibit 8). (See endnote 3 on page 64.)

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

**Exhibit 8—The Standing Committee on Public Accounts endorses our recommendations**





## Organizations implement our recommendations

### Our medium-term result

Organizations we audit implement our recommendations.

### What we achieved

Departments and agencies fully implemented 44 percent of our 2000 recommendations.

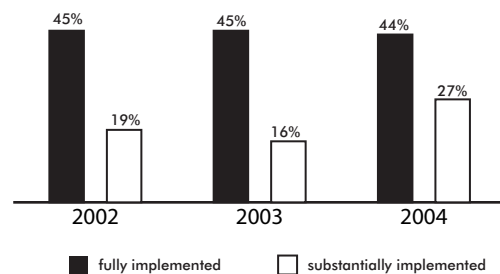
By the end of 2004, 44 percent of our performance audit recommendations that were reported in the year 2000 were fully implemented and 27 percent had been substantially implemented to our satisfaction. The percentage of recommendations fully implemented in 2004 is similar to previous years (Exhibit 9). (See endnote 4 on page 64.)

Departments and agencies are responsible for taking corrective action and improving their management practices. We encourage them to implement our recommendations, and we monitor their performance. We are encouraged by a recent Public Accounts Committee report that recommends the Treasury Board Secretariat

- review departmental responses to our recommendations,
- determine why so few have been implemented,
- ensure that departments fulfill commitments made in their responses to our recommendations, and
- report the results.

We have also developed guidance for our performance auditors on making action-oriented recommendations, as recommended by the international peer review of our performance audit practice. While this new approach will improve our performance, the results will not be available until 2009 when we will report on our 2005 recommendations. We are also encouraged by our recent survey of the organizations we audit; 85 percent said that they intend to implement our audit recommendations.

Exhibit 9—Our 2000 performance audit recommendations that were implemented in 2004



## Organizations maintain support for our role and work

### Our short-term result

Organizations we audit accept our findings and recommendations.

### What we achieved

- In 2004, for performance audits, 85 percent of organizations we audited intend to act on our recommendations, compared with 78 percent in 2003.
- In 2003, for financial audits, 76 percent of organizations we audited intend to act on our recommendations.

The Office conducts a survey every two years for financial audits and every year for performance audits. Our reporting in this performance document excludes audits of territorial governments, special examinations of Crown corporations, and assessments of agency performance reports. Although the questions asked in the survey of annual audits and performance audits are slightly different, we are still able to make general comparisons among the two types of audits. Exhibit 10 shows the percentage of organizations that plan to implement our recommendations for performance audits and financial audits. (See endnote 5 on page 64.)

The majority of organizations we audit are satisfied with our performance. They believe our audits add value (Exhibit 11) and are satisfied with the way we communicate with them during an audit (Exhibit 12).

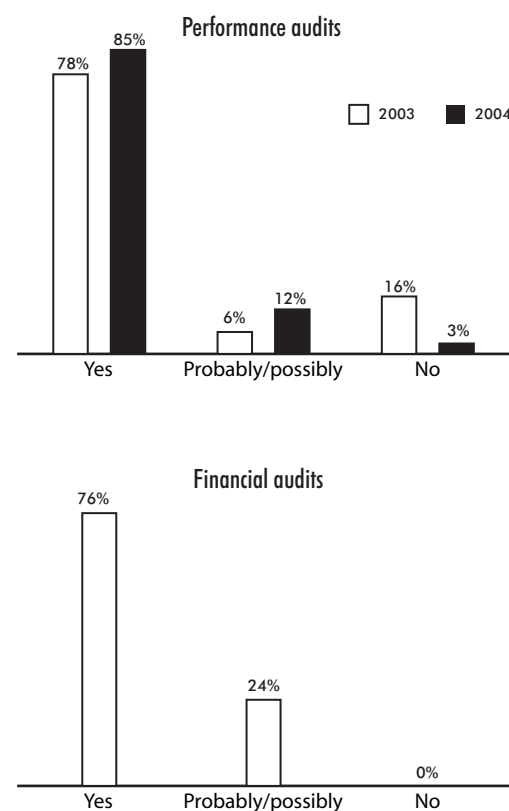
In addition to quantitative data, organizations we surveyed provided information to help our audit teams improve their work (see endnote 5 on page 64). For example, under the category “value of the audit,” we received positive and negative responses, which reflect the quantitative results. Some of the comments included:

“Auditors do not always understand the context within which the managers must work and are somewhat reluctant to tell both sides of the story.”

“The auditors were very professional and objective throughout the audit.”

“The audit made timely observations and useful suggestions for improvement. Our department will work to address these concerns.”

Exhibit 10—Organizations that plan to act on our recommendations



Some of the comments included:

“Auditors do not always understand the context within which the managers must work and are somewhat reluctant to tell both sides of the story.”

“The auditors were very professional and objective throughout the audit.”

“The audit made timely observations and useful suggestions for improvement. Our department will work to address these concerns.”

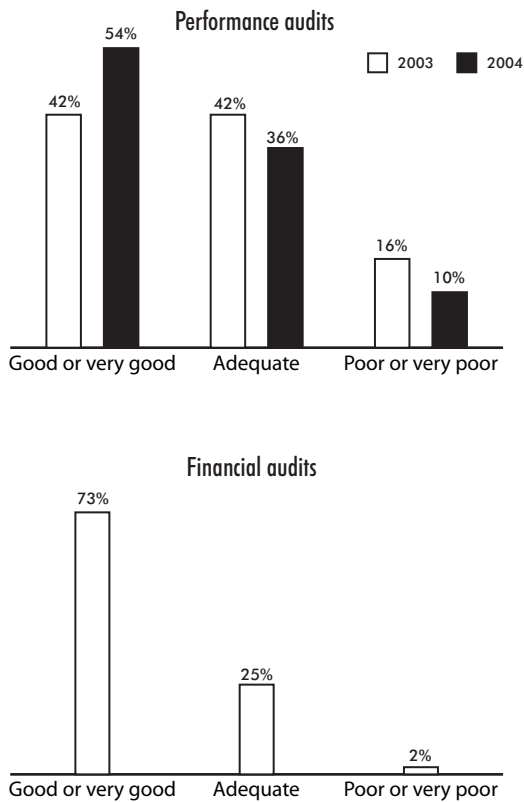
**Our short-term result**

Our work is useful to federal and territorial organizations.

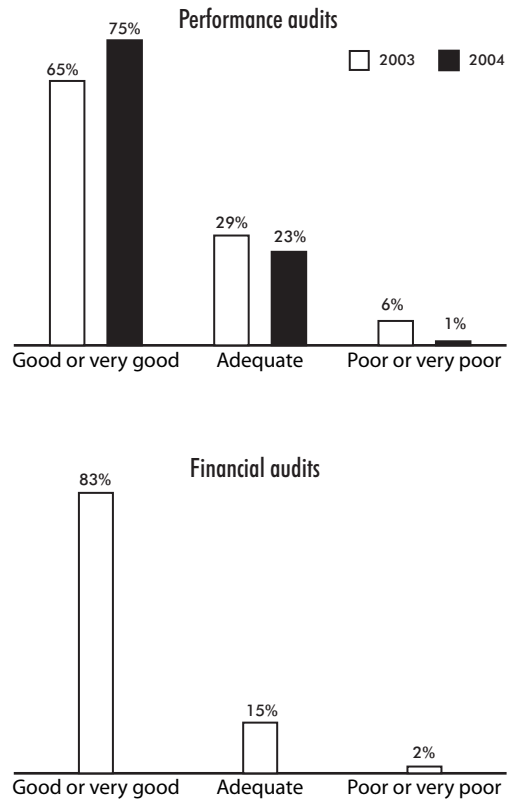
**What we achieved**

- In 2004, 54 percent of the organizations we audited rated our performance audits as good or very good at adding value, compared with 42 percent in 2003.
- In 2003, 73 percent of chief financial officers and audit committee chairs rated our financial audits as good or very good at adding value.
- In 2004, 75 percent of the organizations we audited rated overall communications during the performance audit process as good or very good, compared with 65 percent in 2003.
- In 2003, 83 percent of chief financial officers and audit committee chairs rated overall communications during the financial audit process as good or very good.

**Exhibit 11—Organizations that are satisfied our audits add value**



**Exhibit 12—Organizations that are satisfied with our communication**



**Special Examinations.** During the year, we issued 10 special examination reports to the boards of federal Crown corporations. These reports are designed to provide assurance to the board of directors that the corporation has systems and practices in place that provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively. In order to increase transparency and accountability, the Government requested, as part of the February 2004 Budget, that Crown corporations make their special examination reports available to the public on their Web-sites. Nine of the special examination reports that we issued were made public through entity Web-sites.

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

### **The media and public are well informed**

We analyzed our media coverage in 2004–05 and found that our messages were well understood, and, with a few exceptions, reported accurately. Our messages in the Auditor General's reports and in the Report of the Commissioner of the Environment and Sustainable Development were clearly and effectively communicated to the media.

Media coverage also stimulates interest in our work by Canadians. In 2004–05, we received an unusually large number of inquiries from the public—3,858, including 251 for the Commissioner. This is an increase of 1,781 compared with the previous year.

### **Our unintended impacts are minimized**

We use a range of techniques to identify and mitigate any unintended impacts of our work. For example, we now discuss potential recommendations with organizations earlier in the audit cycle. This helps to ensure that the intended results will be achieved at reasonable costs. We ensure that the tone and language we use in reporting is consistent with the significance of our findings.

### **We foster the environment and sustainable development**

With the position of Commissioner of the Environment and Sustainable Development created in December 1995, the Auditor General's responsibilities for environmental and sustainable development matters have increased considerably.

The Commissioner, on behalf of the Auditor General, reports annually to the House of Commons on all environmental and sustainable development matters that she considers should be brought to its attention. In addition, the Commissioner monitors, audits, and reports publicly on departmental sustainable development strategies and the environmental petitions process.

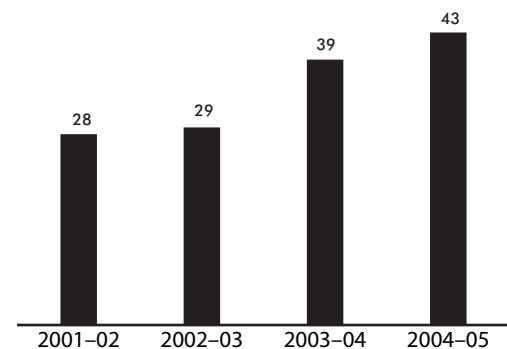
**Action on strategy commitments.** More than 30 departments and agencies are required to prepare sustainable development strategies and update them every three years. We report progress on selected departmental commitments in our reports to Parliament and on our Web site under About Us. For example, in the Commissioner's 2004 Report, Chapter 3, we reported how six federal organizations met commitments for office solid waste. All six organizations are recycling but, with the exception of one organization, they do not have reliable information to show they fully met the waste targets in their strategies.

In this chapter, we also reported how Finance Canada met commitments to examine the use of the tax system to integrate the economy and the environment. The Department had analyzed a range of issues for its tax commitments but had not clearly stated what it was trying to achieve. Its implementation of the commitments was piecemeal and fragmented. Consequently, it could not tell Parliament and Canadians the extent to which it had analyzed how the tax system impedes or favours sustainable development.

### Monitoring the environmental petitions

**process.** In 2004–05, the Commissioner received 43 environmental petitions (Exhibit 13). The petitions process allows Canadians to voice their concerns about environmental issues to federal ministers and organizations, and obtain a response. The issues raised by petitioners included dams on navigable waterways, sablefish aquaculture, riparian area management, the pacific herring fishery, abandoned radar sites, hybrid vehicle rebates, the sustainability of the land claim agreement in Nunavut, and environmental charges on government invoices.

Exhibit 13—The Commissioner receives petitions each year



In addition, the Commissioner audits selected petition responses to assess whether ministers are following through on commitments they make to petitioners. In 2004–05, we audited military dumpsites off Canada's Atlantic Coast, genetically engineered fish, and the transit pass pilot project.

We found that departments are taking action as a result of petitions. For example, partly due to a 2001 petition requesting a payroll deduction transit pass program for the National Capital Region, Transport Canada invited 88 federal organizations in the region to join the program in January 2005. We are currently working on other methods to measure the success of the environmental petitions.

**Accountable for sustainable development.** Since 1997, we have voluntarily produced a sustainable development strategy. Our 2003–06 strategy focusses on ensuring that we consider the environmental consequences of the federal government's activities when we plan, conduct, and report our audit work. While this objective has not changed since our 2001 strategy, we now provide our auditors with better tools to do their work and promote the role and work of the Commissioner of the Environment and Sustainable Development with Parliament, federal organizations, and Canadians. A summary of the Office's Action Plan for its *2003–06 Sustainable Development Strategy*, including actions undertaken in 2004–05, is available on page 58.

Our internal "Green Team" continued strengthening employee awareness of sustainable development to minimize the environmental impact of our day-to-day activities. For example, it posts an environmental bulletin on our Intranet site every two weeks; invites guest speakers; promotes the "three Rs:" Reducing, reusing, and recycling; and co-ordinates special events for Earth Day and Environment Week.

## Supporting initiatives

### Working with legislative auditors and professional organizations

**Canadian Council of Legislative Auditors.** The Office is a member of the Canadian Council of Legislative Auditors (CCOLA), which comprises the 10 provincial legislative auditors; the Auditor General of Canada; and an associate member, the Auditor General of Bermuda. We participate on seven committees and working groups of CCOLA.

Among other things, we work collaboratively with our CCOLA colleagues on issues that cross federal and provincial jurisdictions. For example, we recently conducted a collaborative audit with the legislative audit offices of British Columbia and New Brunswick. We examined progress made by Fisheries and Oceans Canada in conserving and protecting salmon stocks and habitat, ensuring the sustainable use of salmon fisheries, and in regulating salmon aquaculture. For more details on this audit, see page 19.

We are also working with the provincial legislative audit offices to ensure that our quality control framework and policies for financial audits are consistent with the quality control criteria that the Canadian Public Accountability Board has established for auditors of publicly traded corporations. The review should be completed by 1 December 2005.

**INTOSAI.** The Office plays an active role in the INTOSAI (International Organization of Supreme Audit Institutions) and is a member of several of its committees. INTOSAI is the professional organization of 185 audit institutions in countries that belong to the United Nations or its specialized agencies. We are participating in a project to strengthen the audit capacity of francophone countries from the African Organization of Supreme Audit Institutions, a regional organization of INTOSAI.

As a member of INTOSAI's Auditing Standards Committee, the Auditor General chairs its subcommittee on Supreme Audit Institution (SAI) Independence. The subcommittee has developed examples of how the eight core principles of independence can be applied. In April 2004, the Auditor General presented this work at a United Nations/INTOSAI seminar on SAI independence in Vienna.

The Auditor General also chairs INTOSAI's Working Group on Environmental Auditing (WGEA), and the Commissioner of the Environment and Sustainable Development is the associate chair. The working group assists audit institutions to better understand environmental auditing and encourages them to use their audit mandates for environmental protection and sustainable development. The June 2004 meeting in Brazil was the most attended WGEA meeting ever, with 130 participants from 51 countries. At the meeting, WGEA members approved the 2005–07 work plan.

**INCOSAI.** In October 2004, at the XVIIIth INCOSAI (INTOSAI Congress) in Hungary, our Office prepared one of the two major themes debated: Co-ordination of audit efforts among national, regional, local, and self-governing bodies. It resulted in the adoption of accords at the end of the Congress.

As chair of the WGEA, our Office presented its triennial report to the Congress. The 2005–07 WGEA work plan was approved as well as two papers: *Sustainable Development: The Role of Supreme Audit Institutions* and *Environmental Audit and Regularity Auditing*. The WGEA also hosted a very successful forum for heads of audit institutions on their experiences in environmental auditing.

The Congress approved the work plan of the subcommittee on SAI independence for the next three years. The plan calls for the subcommittee to identify regional initiatives in SAI independence and develop case studies for presentation in 2007.

**The Fellowship Program.** The International Audit Office Assistance Program of the CCAF-FCVI Inc. (Fellowship Program) 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 168 fellows from 48 developing countries.

**Professional organizations.** Our employees participate in many professional organizations that contribute to the improvement of legislative auditing, such as the Canadian Evaluation Society, the Institute of Public Administration of Canada, the Canadian Institute of Chartered Accountants, the CCAF-FCVI Inc., the Financial Management Institute, and the Institute of Internal Auditors.

### **Providing a respectful workplace**

**Our diverse workforce.** The Office provides a respectful workplace in which our diverse workforce can strive for excellence and realize their full career potential, while operating effectively. As an organization that audits most government activities, the Office needs employees with post-graduate expertise in many fields—accounting, statistics, economics, engineering, law, social and environmental sciences, public administration, human resources, and information technology. These employees represent 70 percent of staff located in our offices in Ottawa, Vancouver, Edmonton, Montréal, and Halifax. Our audit services staff, representing 30 percent of the Office’s employees, specialize in information technology, human resources, knowledge management, communications, finance, law, and administration.

**Meeting staffing needs.** We ensure that the Office has a sufficient number of qualified and capable employees to carry out our mandate. In 2004–05, we focussed our succession planning strategy on student recruitment and developing high-potential employees. For example, we hired 18 students for training programs that lead to indeterminate positions, and we promoted 10 professionals into the management category. The Office is closely monitoring expected future retirements of staff in the executive and management categories and has appropriate succession plans in place. Further, we revised our training curriculum for audit professionals to increase the number of technical and management courses offered. This was in response to our learning vision approved in 2003–04.

**Employee satisfaction.** In 2004, we conducted a survey on employee satisfaction and held internal focus groups to measure how we were doing (see endnote 6 on page 64). Overall, our employees have a high-level of satisfaction; nevertheless, we continue to strive to improve in this area. The results of the 2004 survey are available in our *2003–04 Performance Report*. Our next employee survey is scheduled for spring 2006.

We have also developed a corporate action plan to co-ordinate efforts, avoid duplication, and ensure tracking and timely follow-up. The Executive Committee committed to taking action in four areas:

- more effective people management,
- more effective meetings,
- more effective communication about products and methodology, and
- more accountability.

The action plan was approved in December 2004 and communicated to all staff in January 2005. Progress on implementing the plan is reported quarterly to the Executive Committee and to staff.

**Bilingual workplace.** We are monitoring the second language proficiency of our management staff with the language requirements established by our Official Languages Policy.

Of our assistant auditors general and principals, 53 percent in 2004–05 met or exceeded the language requirements, compared with 42 percent in 2003–04.

Of our directors, 55 percent met or exceeded the language requirements in 2004–05, compared with 60 percent in 2003–04. This decrease is a result of bilingual directors retiring and being replaced by directors who have not yet met the language requirements.

Our goal is to have all of our assistant auditors general and principals and 75 percent of our directors meet or exceed the language requirements by March 2007. (See endnote 7 on page 64.)

**A representative workforce.** The representation of designated groups in 2004–05 is presented in Exhibit 14.

Exhibit 14—The representation of designated groups in 2004–05				
Workforce	Women	Aboriginal peoples	Persons with disabilities	Visible minorities
Target	52.1%	1.9%	3.6%	10.6%
Total 2004–05	54.6%	1.4%	3.9%	7.2%
Total 2003–04	54.9%	1.5%	3.4%	8.0%

We have exceeded our targets for women and persons with disabilities. In the next two years, we will focus on visible minorities. We plan to improve representation by continuing to implement our three-year employment equity plan. We have also put in place an accommodation policy to assist and better integrate people with disabilities into our workforce.

### Operating more effectively

In January 2005, we began to benchmark our audit services functions. We are gathering information on other organizations of similar size and nature to the Office. This will allow us to better understand how the resources we use to deliver our audit services, and the level of service we provide, compare with others.

We also looked at workload distribution among audit teams. The Executive Committee will consider proposals to deal with workload expectations and distribution in the fall of 2005.

**Information and knowledge management.** We are continuing to work on providing our employees with the knowledge and tools they need to do their work as efficiently as possible:

- Our Intranet is well used and continues to be a business tool of preference for delivering audit methodology, supporting tools, entity information, and media and parliamentary resources. In 2004–05, we improved its overall usability and content.
- Our Web site attracts an average of 20,000 visitors each month and complies with the government’s Common Look and Feel standards for the Internet.



- Our Knowledge Centre (library and records) responded to over 2,400 research requests in 2004–05. Our library collection comprises over 21,000 published resources; in records, we have over 6,651 cubic feet of records and are increasing the number of electronic records.

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

The Office has developed a three-year action plan to address opportunities for improvements identified in the assessment. We are mostly on target in completing the action plan.

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

The Office is improving its integrated risk management practices by aligning existing systems and practices for identifying, assessing, and reporting risks. Last year, we reviewed our corporate risk profile, formalized a framework, approved a risk management policy, and assessed identified risks. This year, we ranked risks and established risk tolerances. We were to complete the development of communication, training, and reporting plans by March 2005 but have been delayed until March 2006 due to other priorities.



## Section IV—Financial Performance

### Activities and operations

#### Parliamentary appropriations used

In 2004–05, the Office used \$72.0 million of the \$75.1 million in parliamentary appropriations approved. As a result, the Office lapsed \$3.1 million in 2004–05. The \$75.1 million is comprised of \$72.8 million in Main Estimates and a further \$2.3 million in Supplementary Estimates and adjustments and transfers. The \$2.3 million was routine in nature, including carry-forward funding and funding for salary adjustments.

Like other government departments and agencies, subject to parliamentary approval, the Office may carry forward lapsed amounts of up to five percent of its operating budget (based on Main Estimates program expenditures) into the next fiscal year. The actual carry forward amount is based on lapsed funds and parental and severance benefits incurred in the year. For 2004–05, the Office has requested that it be allowed to carry forward to 2005–06 the maximum carry forward amount of \$3.1 million.

#### Full-time equivalents used

The Office used 570 full-time equivalent (FTE) employees in 2004–05, which represented 98 percent of our budget of 580 FTEs. This is an increase of 12 FTEs from last year. In 2003–04, we used 558 FTEs, representing 96 percent of our budget of 580 FTEs.

As at 31 March 2005, the Office had 594 employees. Employee turnover, part-time work, and the employment of students are the main reasons for the difference between the number of employees and the number of FTEs used over the year.

#### Cost of operations

In 2004–05, the net cost of operations for the Office was \$82.5 million, as reported in our audited financial statements on page 44. This is an increase of \$3.1 million from 2003–04, largely due to increased costs for employee salary and benefits of about \$2.2 million (3.8 percent) and for Office accommodation of about \$1.3 million (24 percent). The cost of accommodation has risen significantly over the last few years. The agreement for our Ottawa location, signed in late 2003, reflects the increased market value occupancy costs and is adjusted yearly to reflect increases in operating and maintenance costs.

The largest increase, in the costs of product lines, was for the special examinations of Crown corporations (\$1.8 million), followed by professional practices (\$1.1 million), performance audits (\$0.8 million), and sustainable development monitoring activities and environmental petitions (\$0.5 million). The audit of the summary financial statements of the Government of Canada had the largest decrease (\$0.6 million), followed by the financial audits of Crown corporations, territorial governments, and other organizations (\$0.4 million).

A cost and budget variance analysis for each legislative auditing product line follows. The actual costs are those reported in our financial statements on page 44. The costs of individual audits completed

during 2004–05 and the Office’s audit effort by entity are published on our Web site as tables 8 and 9 of the electronic version of our Performance Report.

Also of importance is the comparison of planned spending with actual costs. The preparation of our 2004–05 Report on Plans and Priorities was based on planned spending of \$79.6 million. After preparing the report, we received parliamentary approval for additional spending and updated our budget to reflect planned spending of \$82.2 million (forecast spending). The revised planned spending is included in our 2005–06 Report on Plans and Priorities. Budget variances provided in this section are based on revised planned spending.

The Office charges all direct salaries, professional services, travel and other costs associated with the delivery of individual audits and professional practice projects directly to them. All other 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.

**Analysis by product line**

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

**Performance audits and studies**

Budget	2004–05	\$42.3 million
Actual costs	2004–05	\$40.4 million
Actual costs	2003–04	\$39.6 million
Budget variance—decrease		\$1.9 million (4 percent)
Cost variance—increase		\$0.8 million (2 percent)

At the end of the planning phase of a performance audit, we establish a revised budget after seeking advice from an advisory committee on the objectives of the audit, the general approach to gather evidence, and the significant matters and issues that we plan to report. During the examination phase, we may decide to expand or reduce the scope of planned audit work or audit procedures, which may have an impact on the time planned to conduct the audit.

Overall, the costs of performance audits and studies are higher than the previous year due to cost-of-living increases to salaries and an increase in the total hours spent on this product line. This is also due to an increase in the cost of services provided without charge by other government departments.

The quality of our audit products and professional standards requires our audit teams to have collective knowledge of the subject matter necessary to fulfil the requirements of the audit. Cost increases can result from employee turnover, largely due to the learning time required for new employees to gain the necessary knowledge of the subject matter. Increased costs can also result from additional time required to discuss a draft report and obtain comments from the organizations we audit, as well as from other external factors affecting the operations of these organizations.

Most of our performance audits are done over two fiscal years. The costs incurred in the reporting period are those of audits published in the fiscal year as well as costs incurred for audits scheduled to be published in future fiscal years.

The overall level of effort on performance audit chapters and studies during the reporting period was essentially the same as the previous fiscal year. However, due to the federal election, we cancelled the spring 2004 report originally planned for May and rescheduled the individual chapters to later dates. As a result, we published fewer chapters in the fiscal year than originally planned. However, we accelerated work on chapters to be published in 2005–06.

Following are the audit reports that we published in 2004–05:

- 11 performance audits at an average cost of \$1.28 million each, compared with 26 performance audits in 2003–04 at an average cost of \$1.16 million each;
- one special Environmental Review at Export Development Canada at a cost of \$675,000; and
- 8 performance audit status reports at an average cost of \$735,000 each, compared with 6 status reports in 2003–04 at an average cost of \$635,000 each.

The resulting variance between the original budget and actual costs was offset by other factors. In addition to our audit chapters, the performance audit product line includes other types of work that required a greater level of effort than expected. This work included the following:

- Our involvement with the Gomery Commission required us to invest significantly more resources than we had originally planned.
- We are required to provide an opinion every two years on the Health Indicator Reports prepared by the federal government and the three territorial governments. These audits required more time to conduct than originally planned because the Office decided to conduct the audit work at an audit level of assurance instead of the planned review level.
- We invested more resources than in previous years on reporting of other matters to the territorial governments.

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

(\$ millions)	2004–05	2003–04
<b>Budget</b>	<b>\$20.7</b>	<b>\$19.1</b>
<b>Actual costs</b>		
Crown corporations	<b>\$8.4</b>	<b>\$8.2</b>
Other corporations and organizations	7.7	7.3
Territorial organizations	4.9	4.9
International organizations	1.0	2.0
<b>Total actual costs</b>	<b>\$22.0</b>	<b>\$22.4</b>
Budget variance—increase	<b>\$1.3 (6 percent)</b>	
Cost variance—decrease	<b>\$0.4 (2 percent)</b>	

Overall in 2004–05, the costs of the financial audits have remained fairly constant even though the salary and overhead costs have increased and we began to do audit work on five new entities (four other corporations and organizations and one territorial organization). These increased costs were offset by an overall decrease in the time needed to conduct our financial audits.

Our work on financial audits is often done over two fiscal years. In 2001–02, we made a commitment to reduce the total hours by 15 percent for annual financial audits of Crown corporations, territorial governments, and other organizations with fiscal years ending in 2004–05. Audits of international organizations and of the Canada Revenue Agency are currently excluded from this commitment. Thus, we will report the results for the achievement of this target in next year's Performance Report. To date, we have achieved an overall 7 percent reduction for audits with fiscal years ending in 2003–04.

**Crown corporations.** The number of new accounting and auditing standards issued continues to require some entities we audit to increase their reporting and disclosure, which gives us additional responsibilities as auditors. As these changes to professional standards must be reflected in our audit approach, they had an impact on our originally planned costs and the overall actual costs. New and revised accounting standards that continue to have an impact on our work include accounting for financial instruments, the revised hierarchy of generally accepted accounting principles in Canada, and accounting for variable interest entities. Recent auditing standards that have an impact on our work include new quality control standards and the auditor's responsibility for detecting fraud and error. These requirements have an impact on all of our financial audits, but the larger and more complex Crown corporation audits are most affected.

**Other corporations and organizations.** We have been able to reduce the costs of these audits significantly over the last few years. There was also a decrease in the costs of our audit of the financial statements of the Canada Revenue Agency. During the reporting period, we completed the first audits of the financial statements of four new entities—the Office of the Chief Electoral Officer, Office of the Commissioner of Official Languages, Office of the Information Commissioner of Canada, and Office of the Privacy Commissioner of Canada. These audits required more effort than we had originally planned.

**Territorial organizations.** We began audit work on one new entity during 2004–05—the Northwest Territories Opportunity Fund. Although we have planned for reductions in the costs of our territorial audits, we have not yet been able to achieve them. We will continue to look for efficiencies in these audits through implementation of our new audit methodology and tools.

**International organizations.** The Office is responsible for the audits of two international organizations—the International Civil Aviation Organization (ICAO) and the United Nations Educational Scientific and Cultural Organization (UNESCO). We do these audits on a cost recovery basis and balance our level of effort on the financial audits with performance audit work that we do for these organizations. In 2004–05, the cost of these financial audits decreased largely due to the cyclical nature of the UNESCO audit (a biennial audit) and to improved efficiency from implementation of our new audit methodology and tools.

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

Budget	2004–05	\$4.0 million
Actual costs	2004–05	\$3.8 million
Actual costs	2003–04	\$4.4 million
Budget variance—decrease		\$0.2 million (5 percent)
Cost variance—decrease		\$0.6 million (14 percent)

Our new approach for the audit of the summary financial statements of the Government of Canada has allowed us to decrease the overall costs of this audit over the last few years, even though salary and overhead costs have increased. Our rotational audit strategy limits the work on selected departments to detailed audit work in high-risk areas, with more extensive audit work being undertaken on a three-year rotational basis.

Once again this year, we have not been as successful in completing our planned work on the assessment of financial controls in departmental and management information systems that were implemented as part of the Financial Information Strategy (FIS). However, we are planning to catch up in 2005–06 on the work that was delayed in the past two years.

#### **Special examinations of Crown corporations**

Budget	2004–05	\$6.4 million
Actual costs	2004–05	\$6.1 million
Actual costs	2003–04	\$4.3 million
Budget variance—decrease		\$0.3 million (5 percent)
Cost variance—increase		\$1.8 million (42 percent)

Crown corporations are required to initiate a special examination of their organizations at least once every five years. We currently do about 40 special examinations over five years. The Office set a target to reduce the total hours required to conduct the current round of special examinations by 15 to 25 percent by 2005–06. To date, we have completed 21 special examinations in the current round and achieved reductions that average 19 percent.

Total costs vary, depending on the number of examinations under way in a year; the nature, size, and complexity of the examinations; and the risk levels of the corporations being examined. In 2004–05, we worked on 19 special examinations of which 9 were completed; this compared with 17 in 2003–04, of which 7 were completed. As part of the five-year audit cycle, there are cyclical peaks and valleys. This has resulted in a planned increase in our workload over the last few years. Despite increased salary and overhead costs, the total cost of the special examination product line has stayed within budget and we have completed the special examinations that were planned.

The costs of special examinations completed in 2004–05 are reported in table 8 in the electronic version of our Performance Report available on our Web site under About Us.

### **Monitoring of sustainable development activities and the environmental petitions process**

Budget	2004–05	\$3.2 million
Actual costs	2004–05	\$3.1 million
Actual costs	2003–04	\$2.6 million
Budget variance—decrease		\$0.1 million (3 percent)
Cost variance—increase		\$0.5 million (19 percent)

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

In 2004–05, the number of petitions received increased from 39 to 43, and we put in place a new electronic system to help improve the administration process for petitions. The variances on this product line are due primarily to additional work associated with the monitoring of the sustainable development strategies; this work was partly offset by fewer hours spent on the administration of petitions.

### **Assessments of agency performance reports**

Budget	2004–05	\$0.8 million
Actual costs	2004–05	\$1.1 million
Actual costs	2003–04	\$1.0 million
Budget variance—increase		\$0.3 million (38 percent)
Cost variance—increase		\$0.1 million (10 percent)

Three government agencies—the Canadian Food Inspection Agency, the Canada Revenue Agency, and Parks Canada Agency—are required to produce annual reports that include information on their performance. The Office is required under legislation to assess the fairness and reliability of that performance information. The costs of this product line increased slightly because the audit work at the Canadian Food Inspection Agency required more time than originally planned.



## Professional practices

Budget	2004–05	\$5.7 million
Actual costs	2004–05	\$7.1 million
Actual costs	2003–04	\$6.0 million
Budget variance—increase		\$1.4 million (25 percent)
Cost variance—increase		\$1.1 million (18 percent)

In 2004–05, our costs in this area increased by \$1.1 million from 2003–04. Note 8 of the audited financial statements (page 52) provides a breakdown of expenses by type for 2004–05 with comparative figures for 2003–04. Part of this increase is explained by higher salary and overhead costs. However, the increased spending is also related to other factors.

We are committed to continuing our investment in audit methodology projects. In 2004–05 we were able to increase our efforts in a number of the methodology projects to support the performance audit and financial audit practices; these projects had been deferred the previous year due to other priorities.

The cost of international activities increased as a result of the following work: preparations for and significant participation in the triennial Congress of the International Organization of Supreme Audit Institutions (INTOSAI) held in Budapest in October 2004; an increase in the number of visits to Ottawa by auditors general of other countries; preparations for hosting a May 2005 meeting of auditors general from 13 developed countries; and participation in a program to strengthen legislative audit capacity in francophone Africa, for which recovered costs have been credited to the Consolidated Revenue Fund.

The cost of participation in standard-setting activities also increased. Each year, there is an increasing number of new accounting and auditing standards issued that have an impact on our responsibilities as auditors. As a result, in addition to commenting on proposed new standards, a number of our senior officials are members of standard-setting boards and task forces. In 2004–05 the level of participation by our senior management in the standard-setting process was higher than in previous years.

The cost of external review increased due to our participation in the peer review of the performance audit practice of the United States national audit office (General Accountability Office).

## Financial tables

Table 1—Comparison of planned to actual spending (including full-time equivalents)						
(\$ millions)	2002–03	2003–04	2004–05			
	Actual	Actual	Main Estimates	Planned spending	Total authorities	Actual
<b>Legislative auditing</b>	71.7	71.8	72.8	72.8	75.1	72.0
Less: Non-responsible revenue <sup>1</sup>	(1.3)	(0.9)	(0.8)	(0.8)	(1.1)	(1.1)
Plus: Cost of services provided without charge by other government departments	8.9	8.8	7.6	7.6	10.1	10.1
<b>Net cost of program<sup>2</sup></b>	<b>79.3</b>	<b>79.7</b>	<b>79.6</b>	<b>79.6</b>	<b>84.1</b>	<b>81.0</b>
<b>Full-time equivalents</b>	<b>565</b>	<b>558</b>		<b>580</b>		<b>570</b>

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

<sup>2</sup> The net cost of operations reported in our audited financial statements, prepared in accordance with generally accepted accounting principles (GAAP), is \$82.5 million or \$1.5 million more than the actual spending reported above. Accounting for capital assets and employee benefits account for the difference.

Table 2—Voted and statutory appropriations						
(\$ millions)		2004–05				
Vote or statutory item	Vote or statutory wording	Main Estimates	Planned spending	Total authorities <sup>2</sup>	Actual	
20	Operating expenditures	62.9	62.9	66.3	63.2	
20	Grants and contributions <sup>1</sup>	0.4	0.4	0.4	0.4	
(S)	Contributions to employee benefit plans	9.5	9.5	8.4	8.4	
<b>Total — Legislative auditing</b>		<b>72.8</b>	<b>72.8</b>	<b>75.1</b>	<b>72.0</b>	

<sup>1</sup> The contribution is made to the CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation). The Office also provides a staff member under secondment to the CCAF-FCVI Inc. for which we recover partial costs.

<sup>2</sup> The difference between Main Estimates and total authorities represents Supplementary Estimates, adjustments, and transfers.

Table 3—Net cost of program		
(\$ millions)	2003–04	2004–05
Total actual spending	71.8	72.0
Plus: Services provided without charge by other government departments		
Accommodation provided by Public Works and Government Services Canada	5.3	6.6
Contributions covering employers' share of employees' insurance premiums and expenditures paid by the Treasury Board Secretariat	3.5	3.5
Less: Non-respensible revenue	(0.9)	(1.1)
<b>Net cost of program</b>	<b>79.7</b>	<b>81.0</b>

Table 4—Contingent liabilities			
(\$ millions)	Amount of contingent liability		
List of contingent liabilities	31 March 2003	31 March 2004	Current as of 31 March 2005
Claims, pending, and threatened litigation	–	–	–
Litigations	5.3	5.4	5.5
<b>Total</b>	<b>5.3</b>	<b>5.4</b>	<b>5.5</b>

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 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 \$5.53 million. Further, in the opinion of management, the outcome of the suit is not determinable at this time and, accordingly, no liability has been recognized in the financial statements.

Table 5—Contracting activity for professional services						
	Original contracts for less than \$25,000 <sup>1</sup>			Original contracts for \$25,000 or more <sup>1</sup>		
	(\$ thousands)	Number	Percentage	(\$ thousands)	Number	Percentage
Competitive contracts	0	0	0	679.9	11	91.7
Non-competitive contracts	5,135.6	574	100.0	60.0	1	8.3
<b>Total</b>	<b>5,135.6</b>	<b>574</b>	<b>100.0</b>	<b>739.9</b>	<b>12</b>	<b>100.0</b>

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

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

Table 5 highlights the Office's contracting activity for professional services in 2004. The Auditor General's power to enter into contracts for professional services is subject to subsection 15(2) of the *Auditor General Act* and not the Government Contracts Regulations. The Auditor General's policy on contracting for professional services requires that contracts for estimated professional fees of \$25,000 or more be awarded through competition, unless they meet one of the three criteria for exemption: the need is one of pressing urgency, it is not in the public interest to solicit bids due to the nature of the work, or there is only one person capable of performing the work. Contracts that exceed the North American Free Trade Agreement (NAFTA) threshold follow NAFTA rules.

In 2004, the majority of contracts were awarded by the Office on a non-competitive basis. Seventy-eight percent of these contracts had original values of \$15,000 or less. We awarded one contract for \$60,000 on a non-competitive basis for legal representation at the Commission of Inquiry into the Sponsorship Program and Advertising Activities. The contract was subsequently amended to \$484,000, plus \$22,000 for related expenses.

**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 general is available on our Web site under About Us.

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

**Table 7—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 <sup>1</sup>	Salary (\$)	Bilingual bonus (\$)	Performance pay (\$)	Automobile <sup>2</sup> (\$)	Club membership (\$)	Total (\$)
Auditor General	1	261,100 <sup>3</sup>			3,652	551	265,303
Deputy auditor general	1	182,245-218,155		0-16,300			182,245-234,455
Assistant auditors general and Commissioner of the Environment and Sustainable Development	11	129,595-171,480		0-16,300		551 <sup>4</sup>	129,595-188,331
Senior principals	5	103,260-149,600		0-14,000			103,260-163,600
Principals	55	103,260-133,180		0-13,250			103,260-146,430
Directors	104	76,940-106,860		0-10,500			76,940-117,360
Auditors	217	37,322-81,187	800	0-3,000			37,322-84,987
Audit service officers	69	49,417-89,452	800				49,417-90,252
Audit service specialists	107	30,897-56,795	800				30,897-57,595
	570						

<sup>1</sup> Full-time equivalents (FTEs) utilized in the fiscal year 2004–05.

<sup>2</sup> Taxable benefit for the personal use of an automobile for the 2004 calendar year.

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

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

# 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 *2004–05 Performance Report*. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen methods that it believes to be appropriate in the circumstances. Where estimates or judgments have been required, management has determined such amounts on a reasonable basis. Financial information disclosed elsewhere in this Performance Report is consistent with these audited financial statements.

In meeting its reporting responsibility, management has established and followed policies and procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, operations are in compliance with governing authorities, and financial information is reliable. These internal control systems are periodically tested and evaluated by the internal auditors, and management takes any action necessary to respond appropriately to their recommendations. Management recognizes the limits inherent in all systems of internal control but believes the Office has established effective and responsive systems of internal control through the careful selection of employees, appropriate division of responsibilities, training and other professional development activities, and development of formal policies and procedures.

The Office's Executive Committee oversees management's preparation of the financial statements and ultimately approves the financial statements and related disclosures based on a recommendation from the Office's Audit Committee. As a basis for recommending approval of the financial statements to the Executive Committee, the Audit Committee reviews the Office's internal controls and the accounting policies employed by the Office for financial reporting purposes. The Audit Committee also meets independently with the Office's internal and external auditors to consider the results of their work.

The external auditors' report, as to the fairness of presentation of these financial statements in conformity with Canadian generally accepted accounting principles, is included in this Performance Report.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
22 June 2005

Robert D'Aoust, CA  
Comptroller and  
Senior Financial Officer

## Auditors' report

To the Speaker of the House of Commons

We have audited the statement of financial position of the Office of the Auditor General of Canada as at 31 March 2005 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 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

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

Ottawa, Canada  
22 June 2005

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

	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Due from the Consolidated Revenue Fund	\$ 5,890,033	\$ 7,076,078
Accounts receivable and prepaid expenses	1,696,308	913,869
	7,586,341	7,989,947
<b>Capital assets (note 4)</b>	6,157,618	7,130,607
	\$ 13,743,959	\$ 15,120,554
<b>Liabilities and Deficit</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Due to employees	\$ 4,520,896	\$ 3,143,515
Due to others	2,931,139	4,263,283
Vacation pay	2,717,875	2,686,779
Current portion of employee future benefits	2,902,245	2,728,112
	13,072,155	12,821,689
<b>Employee future benefits (note 5)</b>	9,630,647	9,770,860
<b>Deficit (note 6)</b>	( 8,958,843 )	( 7,471,995 )
	\$ 13,743,959	\$ 15,120,554

Contingencies (note 9)

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

Approved by

Sheila Fraser, FCA  
Auditor General of Canada

Robert D'Aoust, CA  
Comptroller and  
Senior Financial Officer

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

	2005	2004
<b>Expenses (note 7)</b>		
Performance audits and studies	\$ 40,427,781	\$ 39,617,157
Financial audits of Crown corporations, territorial governments, and other organizations	21,944,278	22,350,211
Special examinations of Crown corporations	6,142,489	4,311,941
Audit of the summary financial statements of the Government of Canada	3,768,165	4,393,421
Monitoring sustainable development activities and the environmental petitions process	3,054,515	2,600,368
Assessments of agency performance reports	1,145,589	1,053,166
Total cost of audits	76,482,817	74,326,264
Professional practices (note 8)	7,077,198	6,028,158
<b>Total cost of operations</b>	<b>83,560,015</b>	<b>80,354,422</b>
<b>Costs recovered</b>		
International audits	753,656	824,664
Other	308,110	105,882
<b>Total costs recovered</b>	<b>1,061,766</b>	<b>930,546</b>
<b>Net cost of operations</b>	<b>\$ 82,498,249</b>	<b>\$ 79,423,876</b>

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



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

	2005	2004
Deficit, beginning balance	\$ ( 7,471,995 )	\$ ( 7,716,771 )
Total cost of operations	( 83,560,015 )	( 80,354,422 )
Parliamentary appropriations used (note 3)	71,964,065	71,762,501
Services provided without charge by other government departments (note 7)	10,109,102	8,836,697
<b>Deficit, ending balance</b>	<b>\$ ( 8,958,843 )</b>	<b>\$ ( 7,471,995 )</b>

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

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

	2005	2004
<b>Operating activities</b>		
Cash payments	\$ ( 74,026,322 )	\$ ( 67,177,174 )
Cash receipts	1,333,341	1,282,735
Parliamentary appropriations used (note 3)	71,964,065	71,762,501
<b>Cash (used in) provided from operating activities</b>	<b>( 728,916 )</b>	<b>5,868,062</b>
<b>Investing activities</b>		
Capital asset acquisitions	( 467,488 )	( 3,344,113 )
Proceeds from the disposal of capital assets	10,359	3,012
<b>Cash used in investing activities</b>	<b>( 457,129 )</b>	<b>( 3,341,101 )</b>
<b>Increase (Decrease) in Due from the Consolidated Revenue Fund during the year</b>	<b>( 1,186,045 )</b>	<b>2,526,961</b>
<b>Due from the Consolidated Revenue Fund, beginning of year</b>	<b>7,076,078</b>	<b>4,549,117</b>
<b>Due from the Consolidated Revenue Fund, end of year</b>	<b>\$ 5,890,033</b>	<b>\$ 7,076,078</b>

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

Office of the Auditor General of Canada  
Notes to the financial statements for year ended 31 March 2005

**1. Authority and objective**

The *Auditor General Act*, the *Financial Administration Act*, and a variety of other acts and orders-in-council set out the duties of the Auditor General and the Commissioner of the Environment and Sustainable Development. These duties relate to legislative auditing and the monitoring of federal departments and agencies; Crown corporations; territorial governments; and other organizations, which include two international organizations.

The 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.

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

### f) 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 on a pay-as-you-go basis.

### 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 reflect the full cost as employer. This amount is 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 on a pay-as-you-go basis.

### **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) Use of estimates**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Capital assets and employee severance benefits are the most significant items for which estimates are used. Actual results could differ significantly from those estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

## **3. Parliamentary appropriations**

The Office is funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Deficit in one year may be funded through parliamentary appropriations in prior and future years. Accordingly, the Office's net cost of operations for the year based on Canadian generally accepted accounting principles is different than total parliamentary appropriations used for the year. These differences are reconciled as follows:

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

	2005	2004
<b>Net cost of operations</b>	\$ 82,498,249	\$ 79,423,876
Less: expenses not requiring the use of appropriations		
Amortization of capital assets	( 1,440,477 )	( 1,989,647 )
Services provided without charge by other government departments	(10,109,102 )	( 8,836,697 )
Other		( 17,245 )
Add: Costs recovered	1,061,766	930,546
	72,010,436	69,510,833
Changes in Statement of Financial Position amounts not affecting the current year use of appropriations	( 513,859 )	( 1,092,445 )
Parliamentary appropriations applied to operations	71,496,577	68,418,388
Capital asset acquisitions funded by appropriations	467,488	3,344,113
Parliamentary appropriations used	\$ 71,964,065	\$ 71,762,501

**b) Reconciliation of parliamentary appropriations available to parliamentary appropriations used**

	2005	2004
<b>Parliamentary appropriations:</b>		
Voted—operating expenditures	\$ 66,679,012	\$ 66,611,200
Statutory contributions to employee benefit plans	8,405,401	7,781,325
Proceeds from disposal of capital assets	10,359	3,012
Parliamentary appropriations available for use	75,094,772	74,395,537
Less: Lapsed appropriations <sup>1</sup>	( 3,130,707 )	( 2,633,036 )
Parliamentary appropriations used	\$ 71,964,065	\$ 71,762,501

<sup>1</sup>Subject to parliamentary approval, organizations can carry forward into the next fiscal year up to 5 percent of their operating budgets (based on Main Estimates program expenditures). In 2004–05, this amount is \$3.1 million (\$2.9 million in 2003–04) for the Office.

**4. Capital assets**

	2005			2004	
	Cost			Net book value	Net book value
	Opening Balance	Net additions (disposals) for the year	Accumulated amortization		
Informatics hardware and infrastructure	\$ 1,926,038	\$ ( 384,012 )	\$ 1,366,783	\$ 175,243	\$ 240,983
Office equipment	1,112,505	( 7,684 )	775,030	329,791	526,302
Furniture and fixtures	4,284,178	48,908	1,164,057	3,169,029	3,731,193
Informatics software	3,036,861	338,796	2,927,718	447,939	339,998
Motor vehicle	24,305		16,203	8,102	12,963
Leasehold improvements	2,516,540		489,026	2,027,514	2,279,168
	\$12,900,427	\$ ( 3,992 )	\$ 6,738,817	\$ 6,157,618	\$ 7,130,607

Amortization expense for the year ended 31 March 2005 is \$1,440,477 (\$1,989,647 in 2004).

## 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:

	2005	2004
Office's contributions	\$ 6,161,159	\$ 5,540,303
Employees' contributions	2,386,837	2,295,470

### b) Severance benefits

The Office provides severance benefits to its employees based on years of service and salary at year end. 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 the balance sheet date, is as follows:

	2005	2004
Severance benefit obligation, beginning of year	\$ 12,498,972	\$ 11,844,307
Cost for the year	865,116	1,392,850
Benefits paid during the year	( 831,196 )	( 738,185 )
Severance benefit obligation, end of year	\$ 12,532,892	\$ 12,498,972

## 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:

	2005	2004
Salaries and employee benefits	\$ 60,129,954	\$ 57,938,872
Professional services	8,267,560	8,148,924
Office accommodation	6,572,102	5,305,289
Travel, relocation, and communication	3,773,806	4,226,220
Informatics, informatics maintenance, and repairs, office equipment, and furniture and fixtures	2,739,281	3,293,058
Utilities, materials and supplies, and other payments	1,122,436	477,970
Printing and publications services	576,049	585,165
Contribution to the CCAF-FCVI Inc.	378,827	378,924
<b>Total cost of operations</b>	<b>\$ 83,560,015</b>	<b>\$ 80,354,422</b>

In 2005, the total cost of operations included services provided without charge by other government departments totalling \$10,109,102 (\$8,836,697 in 2004). This is composed of \$6,572,102 (\$5,305,289 in 2004) for accommodation, \$3,537,000 (\$3,136,368 in 2004) for the employer's contributions to the Public Service Health Care Plan and the Public Service Dental Plan, and none for the employee benefit plans (\$395,040 in 2004).

## 8. Professional practices

The Office works with other legislative audit offices and professional associations such as the Canadian Institute of Chartered Accountants to advance legislative audit methodology, accounting standards, and best practices. International activities include participation in organizations and events that impact on our work as legislative auditors. External review includes the cost of participating in the external reviews of other national legislative audit offices and being the subject of an external review.

	2005	2004
International activities	\$ 2,990,099	\$ 2,668,134
Methodology and knowledge management	2,063,944	1,875,909
External review	661,670	406,513
Canadian Council of Legislative Auditors	566,655	528,123
Participation in standard-setting activities	416,003	170,555
Contribution to the CCAF-FCVI Inc.	378,827	378,924
<b>Professional practices</b>	<b>\$ 7,077,198</b>	<b>\$ 6,028,158</b>



## 9. Contingencies

In 2000–01, the Public Service Alliance of Canada filed a pay equity suit against the Crown alleging that discrimination based on sex had occurred between 1982 and 1997 in seven separate employers. The Office, although not a party to the suit, is one of the seven employers named in the suit. The Alliance requests that the Treasury Board of Canada Secretariat or the responsible employer retroactively increase the wage rates of employees of specific separate employers to remedy the discrimination. No amount is specified in the claim. In the opinion of management, the estimated amount of the contingent liability for employees of the Office of the Auditor General employed by the Office between 1982 and 1997 is about \$5.53 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 2005, the Office incurred expenses of \$22,364,319 (\$21,821,371 in 2004) and recovered costs of \$3,472,013 (\$3,491,933 in 2004) from transactions in the normal course of business with other government departments, agencies, and Crown corporations. These expenses include services provided without charge of \$10,109,102 (\$8,836,697 in 2004) as described in note 7.

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

	2005	2004
Accounts receivable	\$ 1,261,181	\$ 645,583
Accounts payable	115,809	868,844

## 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 2003–04 comparative figures have been reclassified to conform to the presentation adopted in 2004–05.



## Section V—Other Information

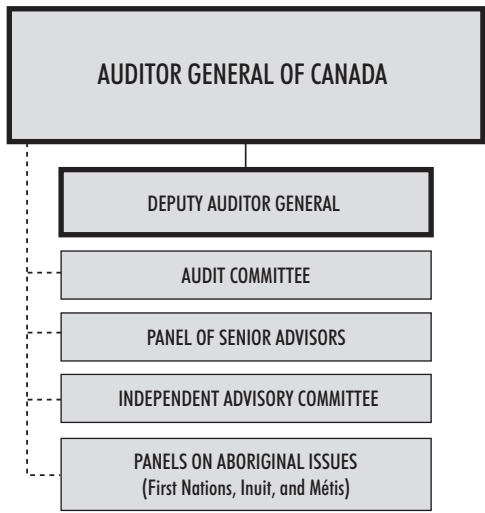
### What's new in this report

There are minor changes in the structure of our *2004–05 Performance Report*:

- We continue to improve our results chain, which is now in Section V and summarized in Section III.
- We have included supplementary performance information in Section V on
  - our Action Plan in our *2003–2006 Sustainable Development Strategy*;
  - the key expected results, indicators, and targets from our *2004–05 Report on Plans and Priorities*; and
  - the Office's financial and human resources and product lines for 2004–05.

# Our organizational structure

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



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

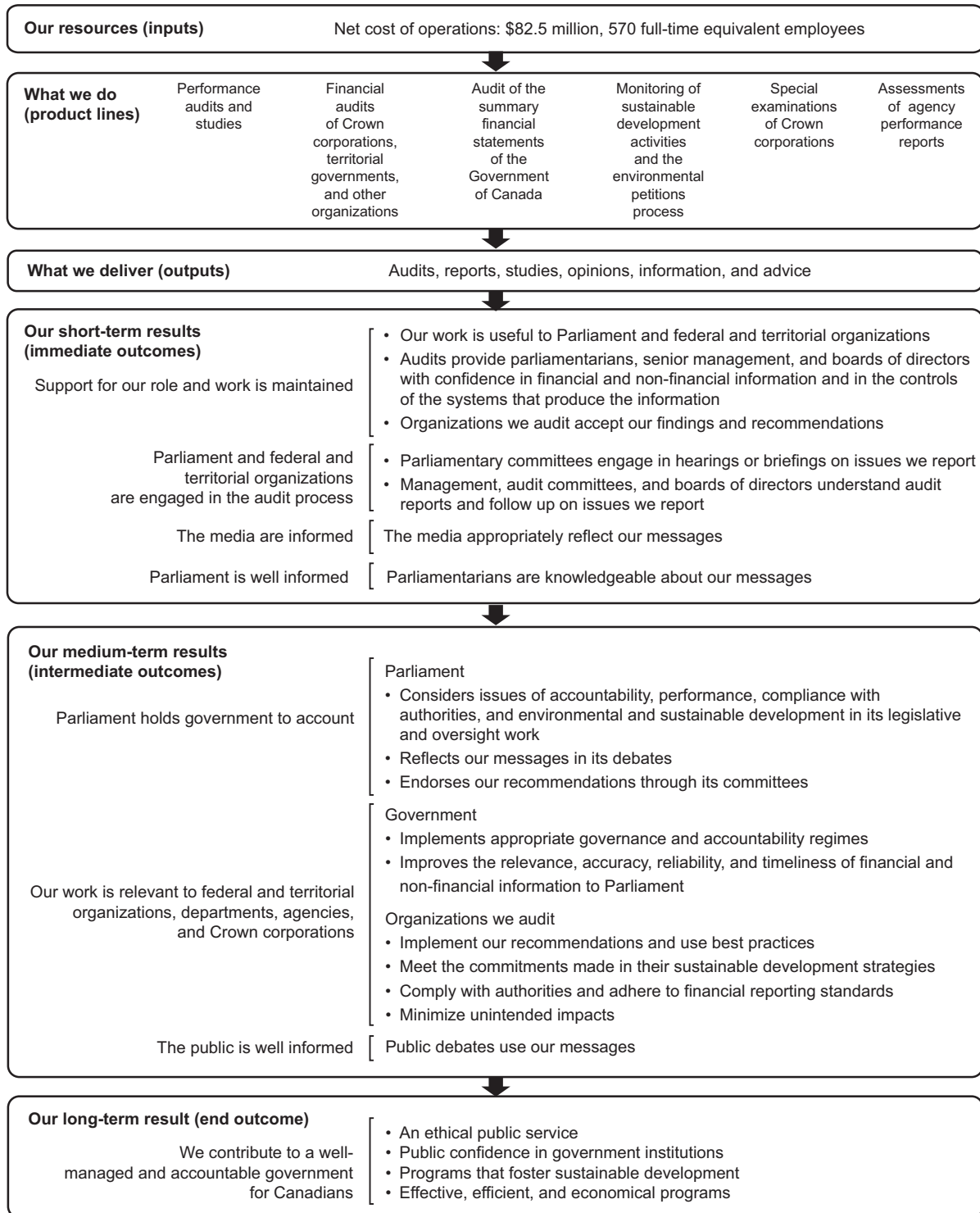
AUDIT PRACTICES
<b>Assistant Auditor General – Group 1</b> Foreign Affairs Canada, International Trade Canada, Canadian International Development Agency, Citizenship and Immigration Canada, Immigration and Refugee Board, Veterans Affairs Canada, Export Development Canada, Canada Mortgage and Housing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

*Panel of Environmental Advisors*

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

June 2005

# Our results chain



# Summary information

## Action Plan in our 2003–2006 Sustainable Development Strategy

**Goal we influence.** Departments we audit integrate environmental and sustainable development considerations in decision making.

**Objective.** Reinforce due regard to the environmental effects of expenditures.

**Action.** By December 2003, we developed an audit practice guide and a structured approach, including practical checklists and tools, to help auditors consider the environmental issues of their work and whether departments are giving due regard to the environmental effects of expenditures where warranted.

In 2004 we began testing our audit practice guide, approved by the Office's Practice Development Committee. This is scheduled to be completed in 2005.

**Objective.** Apply a more structured approach to considering environmental risks in our audit planning process.

**Action.** We developed a practice guide and practical checklists and tools to help auditors apply a more structured approach to considering environmental issues in their long-term planning. This provides a standardized approach to identifying and assessing the significance of environmental risks in audit planning.

**Goal we influence.** Departments produce meaningful sustainable development strategies and implement them.

**Objective.** Promote better departmental sustainable development strategies.

**Action.** In 2004, we created a database of the 2004 departmental strategy commitments and made the information available on our Web site.

As of 2004, we report the results of our quality assessment in the Commissioner's report and in the database.

As of 2005, we report on the action departments have taken on their strategy commitments in the Commissioner's report and in the database. For more information on the results, see the Commissioner's 2005 Report, Chapter 7, Sustainable Development Strategies and our Web site.

**Goals we influence.** Our clients and stakeholders have a better understanding of sustainable development and our role and work.

Parliamentarians consider environmental and sustainable development consequences in their legislative and oversight work.

**Objective.** Promote awareness of our role and work.

**Action.** In 2004–05, the Commissioner of the Environment and Sustainable Development gave 13 presentations across the country to better inform Canadians of environmental and sustainable development issues.

In 2004–05, we helped organize the Annual National Capital Colloquium on the Governance of Sustainable Development with the Center on Governance at the University of Ottawa.

**Goal we influence.** There is progress on a federal plan to implement the Johannesburg Plan of Implementation in Canada.

**Objective.** Promote implementation of the federal government's international commitments.

**Action.** In the absence of a federal plan on implementing Canada's international commitments, we are monitoring 2002 World Summit-related commitments in our audit work. For more information, see the Commissioner's 2005 Report, Chapter 7, Sustainable Development Strategies and our Web site.

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Our Action Plan in our *2003–2006 Sustainable Development Strategy* is available on our Web site under About Us.

## Key expected results, indicators, and targets from our 2004–05 Report on Plans and Priorities

Expected results		Indicators	2003–04 results	2004–05 targets	2004–05 results
<b>Our short-term results (immediate outcomes)</b>					
Support for our role and work is maintained	Parliament and federal organizations see our work as useful	Percentage of parliamentarians surveyed in 2002 that consider our recommendations and findings add value to their specific committee work	55%	—	—
Parliament and federal organizations are engaged in the audit process	Parliamentary committees engage in hearings or briefings on issues we report	Percentage of performance audits reviewed by parliamentary committees	55%	60%	52%
<b>Our medium-term results (intermediate outcomes)</b>					
Parliament holds government to account	Parliament considers issues of accountability, performance, compliance with authorities, and environment and sustainable development in its legislative and oversight work	Examples showing how our work contributes to the legislation and oversight work of Parliament	See our 2003 Performance Report (pages 26-27)	Qualitative information is reported annually	See results reported in our 2004–05 Performance Report (pages 18-20)
	Parliament endorses our recommendations through its committees	The Standing Committee on Public Accounts explicitly endorsed our performance audit recommendations in its reports	49% <sup>1</sup>	75%	85%
Our work is relevant to federal departments, agencies, and Crown corporations	Organizations we audit implement our recommendations and use best practices	Where we conducted performance audits, percentage of recommendations fully implemented <sup>2</sup>	45%	Establish a baseline and set a target	44%
	Organizations we audit meet the commitments made in their sustainable development strategies	Progress made on commitments made in departments and agencies' sustainable development strategies	—	—	We discuss the progress departments and agencies have made on their commitments on page 24. We report it annually in the Commissioner's report and on our Web site. <sup>3</sup>

1 This result comes from our 2003–04 Performance Report (page 25). As the Committee had not yet issued all of its reports for hearings held in 2002–03, results were partial. For the final result, see the 2004–05 Performance Report (page 20).

2 We measure our impact in improving the government's accountability, operations, and services by determining the percentage of recommendations we made four years ago that have been implemented.

3 This indicator is new. Reporting against the previous indicator was not meeting our performance monitoring needs. We now audit progress made by departments or agencies on selected commitments.

## The Office's financial and human resources and product lines

Financial resources (\$ millions)		
Forecast spending	Total authorities	Actual spending
\$82.2	\$84.1	\$81.0
Human resources (full-time equivalents)		
Planned	Actual	Difference
580	570	10
Program activity: Legislative auditing (\$ millions)		
Product lines <sup>1</sup>	Forecast spending 2004–05	Actual spending 2004–05
Performance audits and studies	\$42.3	\$40.4
Financial audits of Crown corporations, territorial governments, and other organizations	20.7	22.0
Audit of the summary financial statements of the Government of Canada	4.0	3.8
Special examinations of Crown corporations	6.4	6.1
Sustainable development monitoring activities and environmental petitions	3.2	3.1
Assessments of agency performance reports	0.8	1.1
Professional practice	5.7	7.1
<b>Sub-total</b>	<b>83.1</b>	<b>83.6</b>
Less: Non spendable revenue	(0.9)	(1.1)
<b>Net cost of operations reported in our financial statements</b>		<b>82.5</b>
Differences due to accrual accounting (GAAP) <sup>2</sup>		(1.5)
<b>Net cost of program</b>	<b>\$82.2</b>	<b>\$81.0</b>

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

<sup>2</sup> The net cost of operations reported in our audited financial statements, prepared in accordance with generally accepted accounting principles (GAAP), is \$82.5 million or \$1.5 million more than the net cost of program. Accounting for capital assets and employee benefits account for the difference.



## Statutory reports

Report of the Auditor General of Canada to the House of Commons	Published periodically and available in a variety of formats and on our Web site.
Report of the Commissioner of the Environment and Sustainable Development to the House of Commons	Published annually and available in a variety of formats and on our Web site.
Report of the Auditor General on the Financial Statements of the Government of Canada	Published annually in the Public Accounts of Canada, Volume I and available on our Web site.
Report of the Auditor General on the Condensed Financial Statements of the Government of Canada	Published annually in the Annual Financial Report of the Government of Canada.
Opinions by the Auditor General on over 100 financial statements of federal Crown corporations, other organizations, territorial governments and organizations, and international organizations	Published in the various statutory reports that contain the financial statements of these organizations.
Special examinations of Crown corporations	Submitted to the boards of directors every five years.
Annual Report on Other Matters to the Yukon Legislative Assembly, to the Northwest Territories Legislative Assembly, and to the Nunavut Legislative Assembly	Submitted annually to the legislative assemblies and available from the Clerk of each assembly
Assessment of agency performance reports	Submitted annually to management boards.

## Web site references

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

Office of the Auditor General of Canada	
Office of the Auditor General	<a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a>
Sheila Fraser, Auditor General of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/00agbio_e.html</a>
Commissioner of the Environment and Sustainable Development	<a href="http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu8_e.html">www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu8_e.html</a>
<i>Auditor General Act</i>	<a href="http://laws.justice.gc.ca/en/A-17/index.html">laws.justice.gc.ca/en/A-17/index.html</a>
<i>Financial Administration Act</i>	<a href="http://laws.justice.gc.ca/en/F-11/index.html">laws.justice.gc.ca/en/F-11/index.html</a>
Reports to Parliament	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99repm_e.html</a>
Observations of the Auditor General on the Financial Statements of the Government of Canada	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html</a>
Publications	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/99menu5e.html</a>
Practice review and internal audit reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/02int_e.html</a>
External review reports	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/00qms_e.html</a>
Sustainable Development Strategy and Action Plan, 2003–06	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html">www.oag-bvg.gc.ca/domino/other.nsf/html/200402sdse.html</a>
Comptrollership Capacity Assessment and Action Plan	<a href="http://www.oag-bvg.gc.ca/domino/other.nsf/html/200403ccap_e.html">www.oag-bvg.gc.ca/domino/other.nsf/html/200403ccap_e.html</a>
Government of Canada	
Parliament	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Standing Committee on Public Accounts	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Standing Committee on Environment and Sustainable Development	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Standing Committee on National Finance	<a href="http://www.parl.gc.ca">www.parl.gc.ca</a>
Treasury Board of Canada Secretariat (TBS)	<a href="http://www.tbs-sct.gc.ca">www.tbs-sct.gc.ca</a>
Results for Canadians: A Management Framework for the Government of Canada	<a href="http://www.tbs-sct.gc.ca/res_can/rc_e.html">www.tbs-sct.gc.ca/res_can/rc_e.html</a>
Results-Based Management and Accountability Framework of the Modern Comptrollership Initiative	<a href="http://www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAF02_e.asp">www.tbs-sct.gc.ca/cmo_mfc/resources2/RMAF/RMAF02_e.asp</a>
TBS Management Accountability Framework	<a href="http://www.tbs-sct.gc.ca/maf-crg/index_e.asp">www.tbs-sct.gc.ca/maf-crg/index_e.asp</a>
Financial Information Strategy	<a href="http://www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp">www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp</a>

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

## Methodological endnotes

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

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

- 2) When we count the number of hearings and briefings in which we participate, we consider our appearances before all committees of the House of Commons and the Senate. The other indicator (performance audit and related products reviewed by parliamentary committees) is a ratio of 2004–05 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 20 performance audits accounted for, plus five other related products.

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

- 3) We consider that the Committee endorses our recommendations when its recommendations parallel ours or when the report states that they support all of our recommendations. Because the Committee's reports of audits published at the end of the current year are usually tabled the next fiscal year, data for assessing our 2004–05 performance are not sufficient to accurately reflect our performance.

- 4) Audit teams track the status of outstanding recommendations by assessing the organization's business, reviewing its documentation, and, in some cases, interviewing officials. We have not verified the reliability of this information. Recommendations from government-wide audits and audits by the Commissioner of the Environment and Sustainable Development are excluded.

Our performance indicator is based on the success of departments and agencies in fully implementing our recommendations after a reasonable period of time. We use a four-year interval, between the year the report is tabled and the year we assess implementation, because our data show that departments and agencies often need this time to complete action on our recommendations. Our calculation of the interval, for consistency and reasons of practicality, is by calendar year. In 2006, we will establish a baseline that will enable us to set a target. We will also add to our database recommendations from government-wide audits and from the Commissioner of the Environment and Sustainable Development's reports to Parliament.

- 5) The Office conducts a survey every two years for financial audits and every year for performance audits. Although the questions asked in the survey of financial audits and performance audits are slightly different, we are still able to make general comparisons among the two types of audits.

For 2003 financial audits results, 121 questionnaires were sent: 71 to chief financial officers (CFOs) and 50 to audit committee chairs (ACCs). Eighty-two questionnaires were returned for an overall response rate of 68 percent—54 from CFOs and 28 from ACCs. Respectively, the response rates for these two groups are 76 percent and 56 percent. The overall margin of error for the results of the financial audits survey is 6.1 percent, 19 times out of 20.

For 2003 performance audit results, 82 questionnaires were sent to deputy ministers (DMs) or the head of the entity we audited. Sixty-five questionnaires were returned, giving a response rate of 78 percent. The overall margin of error for the results of the performance audit survey is 5.5 percent, 19 times out of 20. The survey results recorded in our *2003–04 Performance Report* included survey results from the December 2002 audits. These results have now been excluded from our 2003 calculations.

For 2004 performance audits results, 75 questionnaires were sent to deputy ministers (DMs) or the head of the entity we audited and include audits that focussed on more than one entity. Fifty-eight questionnaires were returned, giving a response rate of 77 percent. The overall margin of error for the results of the performance audit survey is 6.1 percent.

- 6) We surveyed Office employees using the Intranet. A total of 652 employees were invited to participate, and 450 employees completed the survey. The overall response rate was 69 percent. The overall margin of error for the survey was 2.6 percent, 19 times out of 20. The results of the 2004 survey are available in our *2003–04 Performance Report*.

- 7) These percentages do not include employees who have been excluded from the language requirement because they will retire soon. For principals and assistant auditors general, 13 of 77 were excluded; for directors, 12 of 110 were excluded.