



ESTIMATES

Office of the Auditor General of Canada

**2000-2001
Estimates**

Part III – Report on Plans and Priorities

Canada

The Estimates Documents

Each year, the government prepares Estimates in support of its request to Parliament for authority to spend public monies. This request is formalized through the tabling of appropriation bills in Parliament. The Estimates, which are tabled in the House of Commons by the President of the Treasury Board, consist of three parts:

Part I – The Government Expenditure Plan provides an overview of federal spending and summarizes both the relationship of the key elements of the Main Estimates to the Expenditure Plan (as set out in the Budget).

Part II – The Main Estimates directly support the *Appropriation Act*. The Main Estimates identify the spending authorities (votes) and amounts to be included in subsequent appropriation bills. Parliament will be asked to approve these votes to enable the government to proceed with its spending plans. Parts I and II of the Estimates are tabled concurrently on or before 1 March.

Part III – Departmental Expenditure Plans which is divided into two components:

- (1) **Reports on Plans and Priorities (RPPs)** are individual expenditure plans for each department and agency (excluding Crown corporations). These reports provide increased levels of detail on a business line basis and contain information on objectives, initiatives and planned results, including links to related resource requirements over a three-year period. The RPPs also provide details on human resource requirements, major capital projects, grants and contributions, and net program costs. They are tabled in Parliament by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*. These documents are to be tabled on or before 31 March and referred to committees, which then report back to the House of Commons pursuant to Standing Order 81(4).
- (2) **Departmental Performance Reports (DPRs)** are individual department and agency accounts of accomplishments achieved against planned performance expectations as set out in respective RPPs. These Performance Reports, which cover the most recently completed fiscal year, are tabled in Parliament in the fall by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*.

The Estimates, along with the Minister of Finance's Budget, reflect the government's annual budget planning and resource allocation priorities. In combination with the subsequent reporting of financial results in the Public Accounts and of accomplishments achieved in Departmental Performance Reports, this material helps Parliament hold the government to account for the allocation and management of public funds.

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**Office of the
Auditor General of Canada**

2000–01 Estimates

**A Report on
Plans and Priorities**

Approved

L. Denis Desautels, FCA
Auditor General of Canada

Honourable Paul Martin, P.C., MP
Minister of Finance

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SECTION 1

Message from the Auditor General of Canada



The Office of the Auditor General is committed to making a difference for Canadians by encouraging positive changes in the functioning of our federal institutions. Over the years, we have focussed on helping Parliament deal with important challenges, such as modernizing the public service, improving information on the results of government programs, improving financial management and control and improving the budgetary process.

Parliament is our primary client. Therefore, it is important that parliamentarians be given an opportunity to get to know their auditor, which in turn helps us to serve them better. As part of our consultations with major stakeholders, we regularly meet with parliamentary committees, parliamentarians and research staff to discuss their interests. Where feasible, we try to address their concerns in our audit plans. In this Report on Plans and Priorities, we present a plan of action and performance expectations for 2000–01 and for the next two years. We also describe how we will continue to put the emphasis on improving the government's financial position, accountability, financial management, public service renewal and protection of the environment.

For the first time since 31 March 1996, the opinion on the Financial Statements of the Government of Canada for the year ending 31 March 1999 did not contain any qualifications. Through the Auditor General's Observations on the financial statements and through our reports to Parliament, we have encouraged the federal government to improve its financial reporting. To this end, the government is working to adopt a new Financial Information Strategy (FIS). This will include the modernization of systems as well as the implementation of accrual accounting and, hopefully, accrual appropriations. In the next year, we will perform additional audit work as a result of FIS.

Measuring and reporting performance information is an issue of ongoing interest. Ministers, parliamentarians and managers in government departments rely on this information to make necessary adjustments in programs and thus ensure that services are being delivered to Canadians, as intended. Parliamentarians also need performance information in order to make changes to programs or legislation. In 2000–01, we will conduct a government-wide audit of measuring and reporting performance information.

Four years ago, the *Auditor General Act* was amended to help strengthen the federal government's performance in protecting the environment and promoting sustainable development. The Commissioner of the Environment and Sustainable Development will monitor and report the extent to which departments and agencies have implemented their action plans and met the objectives outlined in their sustainable development strategies.

In February 2001, to coincide with the end of my mandate, I intend to present a "capstone" report to Parliament on the major issues reported by our Office in the last 10 years. I will also discuss key management problems facing the federal government and the role and evolution of legislative auditing.

In the last year of my term, I remain committed to serving Canadians as Auditor General of Canada and as a member of a team of devoted and professional people. We will continue to do all that we can to help build stronger public institutions.

L. Denis Desautels, FCA
Auditor General of Canada

23 February 2000



SECTION 2

Overview of the Office

The Office's Vision, Mission and Objectives

2.1 The Office's Strategic Framework includes vision and mission statements that guide the work of the Office.

VISION

The Office of the Auditor General of Canada is committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.

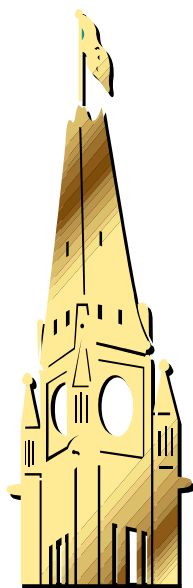
MISSION

We conduct independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

OBJECTIVES

We want to make a difference by promoting:

- a fair and frank accounting of the government's stewardship of financial and other resources;
- efficiency, productivity and cost effectiveness in the public service;
- collection of revenues owed to the Crown;
- objective assurance on matters found to be satisfactory and unsatisfactory;
- compliance with authority;
- honesty in government; and
- the environment and sustainable development.



PRIORITIES 2000–03

- Help improve the government's finances and information on its financial condition.
- Stimulate advances in accountability concepts and improve accountability practices in government.
- Improve the quality of financial management in government.
- Contribute to necessary changes in the public service.
- Help improve the federal government's performance in protecting the environment and promoting sustainable development.

2.2 We share these objectives with many other parties inside and outside government, which complicates the task of identifying results that are specifically owed to our audits. Many share a commitment to good government, and it is really through their co-operation and participation that we are able to effect change. We assess our own effectiveness by our ability to conduct high-quality audits that address significant issues and contribute to **making a difference**, as described in Section 3 of this document.

Mandate, Roles and Responsibilities

Enabling Legislation

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

Business Line – Legislative Auditing

2.4 The business line of the Office is **legislative auditing**. The Auditor General provides Parliament and Canadians with answers to the following questions:

Components of Legislative Auditing ¹	Questions
Value-for-money audits of departments and agencies	Are departmental and agency programs run economically and efficiently, and with due regard to their environmental effects? Does the government have the means to measure the effectiveness of its programs? Is legislation complied with and the public purse protected?
Financial audit of the Financial Statements of the Government of Canada	Is the government presenting fairly its overall financial situation?
Financial audits of Crown corporations and other entities	Are Crown corporations and other entities presenting their financial information fairly in accordance with applicable standards? Are they complying with legislative authorities?
Environment and sustainable development monitoring activities	To what extent did departments and agencies meet the objectives and implement the plans set out in their sustainable development strategies laid before the House of Commons?
Special examinations of Crown corporations	Do systems and practices of Crown corporations provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?

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

2.5 We are different from departments and agencies in that we are independent from the government and report directly to Parliament. Our independence is assured by a broad



legislative mandate, freedom from certain government controls over our budget and staff, and a 10-year mandate for the Auditor General.

The Commissioner of the Environment and Sustainable Development

2.6 The Commissioner's primary role and responsibility is to monitor, on behalf of the Auditor General, the sustainable development strategies and action plans of departments as well as the status of public petitions on environmental matters and the government's response to them. The Commissioner is also required to report annually to Parliament, on behalf of the Auditor General, on the results of his work.

Organization of the Office

2.7 The Executive Office provides overall direction, legal support and professional practice review and oversees our international activities.

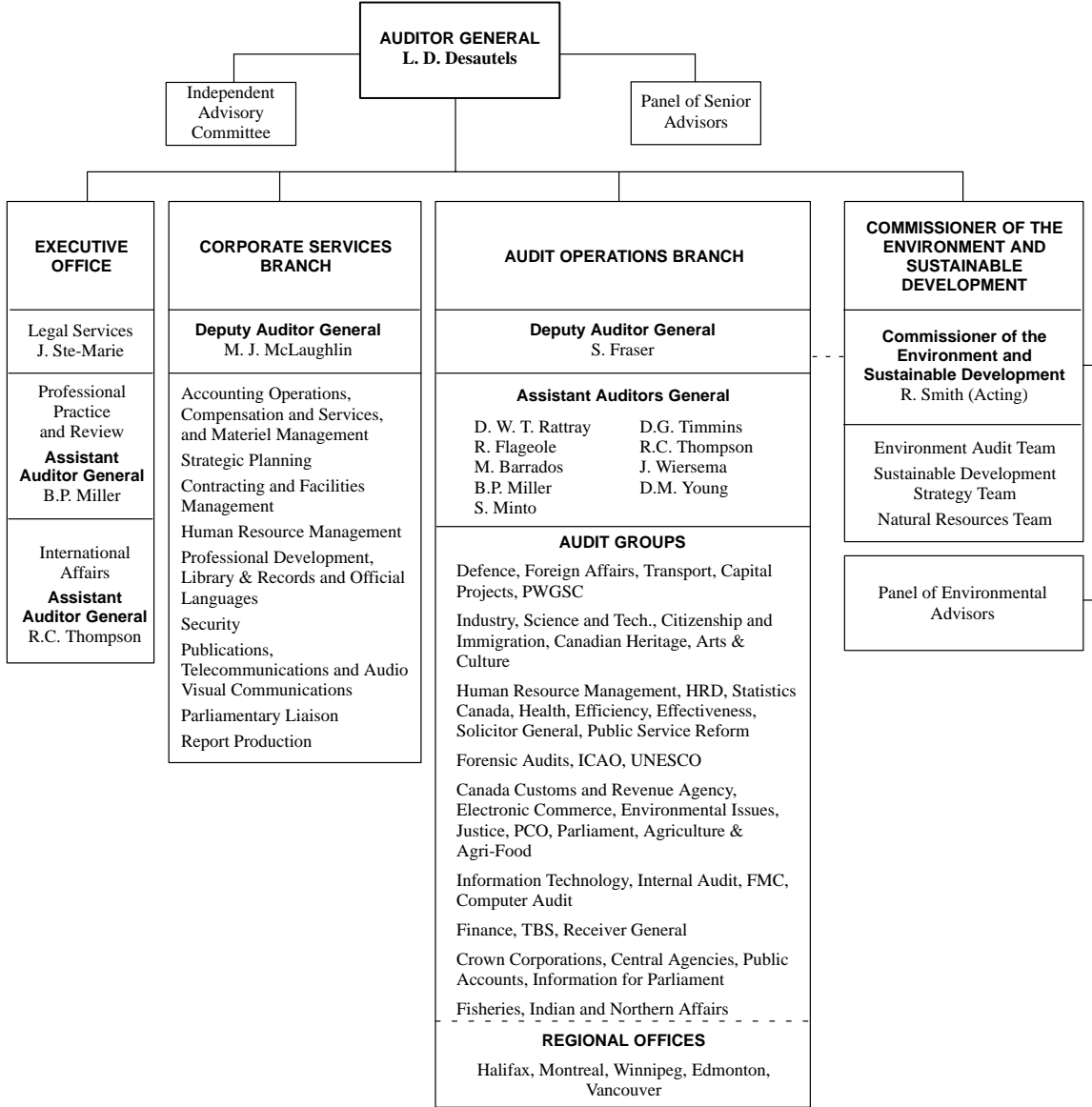
2.8 The Audit Operations Branch is responsible for carrying out all our audit activities. Our auditors have postgraduate degrees or professional qualifications in many disciplines. They include accountants, engineers, lawyers, statisticians, sociologists, historians, environmental specialists and economists.

2.9 The Commissioner of the Environment and Sustainable Development is responsible for monitoring and reporting, on behalf of the Auditor General, on the progress of federal departments and agencies to incorporate principles of sustainable development in their operations. The Commissioner also assists the Auditor General in performing audits and studies in areas related to the environment and sustainable development.

2.10 The Corporate Services Branch provides direct services to our audit activities.

2.11 The Panel of Senior Advisors and the Independent Advisory Committee are committees of external advisors to the Auditor General. The Panel of Senior Advisors represents the main groups of stakeholders that the Office deals with, such as government, business, the accounting profession, the academic community and other parties. Its purpose is to provide strategic advice on the work of the Office. The Independent Advisory Committee, made up of senior accountants, advises the Auditor General on his audits of the Financial Statements of the Government of Canada, Crown corporations and other public-sector entities. The Committee also helps the Auditor General to monitor developments in the accounting and auditing professions and consider their impact on the work of the Office.

Organization of the OAG (As of 31 January 2000)



Reporting Our Work

2.12 The work of the Auditor General and the Commissioner of the Environment and Sustainable Development is reported in several forms, as specified in legislation. These forms include: chapters or other audit observations in the reports of the Auditor General and the Commissioner of the Environment and Sustainable Development to Parliament; opinions on the Financial Statements of the Government of Canada, territorial governments, Crown corporations and other entities; and special examinations to boards of directors of Crown corporations. (For further details, refer to Section 6, “Listing of Statutory Reports”.) We also produce special publications, methodology, briefings for parliamentary committees, speeches, and management letters to organizations we audit. Our reports and information about the Office are available on our Web site at www.oag-bvg.gc.ca.

Financial Spending Plan

(\$ millions)

	Forecast ¹ 1999–2000	Planned 2000–01	Planned 2001–02	Planned 2002–03
Gross Program Spending				
Legislative Auditing	56.2 ¹	54.0	53.9 ²	52.8 ²
<i>Less:</i> Non-respendable revenue	(0.8)	(0.8)	(0.8)	(0.8)
<i>Plus:</i> Cost of services received without charge	5.9	6.0	5.8	5.7
Net Cost of Program	61.3	59.2	58.9	57.7
Full-time Equivalents	515	520	520	520

¹ The Gross Program Spending for 1999-2000 of \$56.2 million includes Main Estimates of \$53.5 million and \$2.7 million in Supplementary Estimates and other adjustments.

² The \$1.0 M decrease in Gross Program Spending between 2001-02 and 2002-03 is due mainly to a reduction in our appropriation base to remove funding that had been provided for costs related to new audit work in newly-created agencies and corporations as well as for the government’s implementation of the Financial Information Strategy (FIS). The OAG, in conjunction with Treasury Board Secretariat, will review in 2002-03, the future funding requirements in these areas.

SECTION 3

Plans, Results and Resources

Summary of Plans, Priorities, Strategies and Expected Results

Chart of Key Results Commitments

3.1 Exhibit 3.1 provides an overview of the key results that the Office expects to achieve in 2000–01 and subsequent years.

Exhibit 3.1 — Chart of Key Results Commitments

To provide Parliament and Canadians with:	To be demonstrated by:
Independent audits and examinations that provide objective information, advice and assurance and that promote accountability, best practices in government operations, and sustainable development.	Evidence that we follow professional standards and that Parliament accepts and endorses our audit conclusions on matters found to be satisfactory or unsatisfactory. Observations and recommendations that are implemented and result in demonstrable improvements in public-sector management and service delivery.

3.2 Exhibit 3.2 further develops the key results that the Office expects to achieve and indicates the components of our business line that will help to achieve them. The checkmarks show the most important links, even though every component could conceivably contribute to every key result.

Exhibit 3.2 — Expanded Chart of Key Results Commitments

To provide Parliament and Canadians with independent audits and examinations that make a difference by promoting:	Results Expected	To be demonstrated by business line component:				
		Value-for-money audits of departments and agencies	Financial audit of the Financial Statements of the Government of Canada	Financial audits of Crown corporations and other entities	Environment and sustainable development monitoring activities	Special examinations of Crown corporations
A fair and frank accounting of the government's stewardship of financial and other resources and influencing the quality of financial management in government	Reliability and usefulness of information provided to Parliament and government management for monitoring and decision-making purposes.	√	√	√		√
Efficiency, productivity and cost effectiveness in the public service	Extent to which audits identify opportunities to reduce costs or achieve more with resources provided.	√				√
Collection of revenues owed to the Crown	Increased effectiveness of revenue administration and maintenance of the tax base.	√		√		
Objective assurance on matters found to be satisfactory and unsatisfactory	Demonstrated compliance with appropriate professional standards and resulting improvements in the quality of the government's published financial information.	√	√	√		√
	Extent to which parliamentarians and other users of financial statements found our audit opinions useful. Extent to which Crown corporation boards of directors found our special examinations useful.		√	√		√
Compliance with authority	Extent to which parliamentarians, Crown corporation boards of directors and other users of our audit products were assured that operations were conducted in compliance with relevant legislative authorities and related regulations.	√	√	√	√	
Honesty in government	Contributions to reducing the risk of wrongdoing, conflict of interest and fraud and maintenance of sound ethics and values.	√	√	√		√
The environment and sustainable development	Extent to which departments improve their management practices for protecting the environment and promoting sustainable development. Extent to which departments and agencies met the objectives and implemented the plans set out in their sustainable development strategies laid before the House of Commons.	√			√	

Office Priorities for 2000–03

3.3 Our Office is continuing its emphasis on improving the government's financial position, accountability, financial management, public service renewal and the environment. We formally adopted these subjects as priorities four years ago, although the wording and emphasis have changed somewhat each year. We are planning a status report on them in February 2001, coinciding with the end of the present Auditor General's mandate. Our priorities could be subject to review and change when a new Auditor General begins in April 2001. Current plans and planned results are identified below.

Priority 1: Help improve the government's finances and information on its financial condition.

3.4 *Supplying useful information, and encouraging the government to follow suit.* This involves ensuring that the government's overall financial statements are presented fairly and providing good information directly to parliamentarians and the public about the government's financial performance and health and about the performance of associated systems and processes. It also involves encouraging the government to provide such information on a regular basis by demonstrating its usefulness and the feasibility of its production. Results that illustrate our success include:

- new comprehensible financial information that could be used by parliamentarians or decision makers; and
- financial improvements implemented and the benefits obtained.

Main outputs that will help to advance our work on this priority are the opinion and observations resulting from our financial audit of the government's overall financial statements, from our financial audits of Crown corporations and other entities, and from our value-for-money audits dealing with the Department of Finance, Treasury Board Secretariat, and the Canada Customs and Revenue Agency. We help to advance better financial statement disclosure by participating in standard-setting bodies and encouraging the Government of Canada, Crown corporations and other audit entities to comply with their standards.

3.5 *Improving the effectiveness of revenue programs.* We can do this by helping to maintain the integrity of the self-assessment system administered primarily by the Canada Customs and Revenue Agency and by the Department of Finance and by examining other risk areas such as protection of borders and administration of trade. This priority includes non-tax revenue and cost-recovery issues. To assess how well we achieve this priority, expected results include changes in tax legislation or tax administration that stem from our recommendations and that are designed to:

- reduce non-compliance or encourage voluntary compliance with the tax and trade laws;
- reduce tax avoidance opportunities;

- improve the administration and effectiveness of programs delivered through the tax system, commonly referred to as tax expenditures (e.g., tax incentives for research and experimental development, credits for the Goods and Services Tax, national child benefits); or
- improve fairness, consistency and impartiality in tax and border administration.

3.6 Main outputs that will help to advance this work are value-for-money audits of the Canada Customs and Revenue Agency. Audits of Employment Insurance Account and the Canada Pension Plan also have the potential to contribute.

3.7 *Finding savings in government operations.* Savings are defined broadly as:

- actual monetary reductions; or
- potential for future expenditure reductions.

It is the responsibility of every audit team to look for opportunities to encourage savings. Each year we expect from value-for-money audits at least two or three good examples of financial savings arising from identified instances of waste, reduced expenditures and improvements in operational efficiency and effectiveness. In 2000–01, looking for potential savings is one of the considerations of the following value-for-money audits:

- Information Technology — *Acquisition of Goods and Services*;
- Fisheries & Oceans — *Fleet Management*;
- Canadian International Development Agency — *Contracting*;
- National Defence — *Productivity and Renewal*;
- Citizenship and Immigration Canada — *The Economic Component of the Canadian Immigration Program*; and
- Royal Canadian Mounted Police — *Services for Canada’s Law Enforcement Community*

However, we realize that much of the credit for actual savings achieved should go to the organizations that implement our recommendations for improvement.

Priority 2: Stimulate advances in accountability concepts and improve accountability practices in government.

3.8 Through audits, studies, presentations, publications and other communication activities, the Office works to promote the development and use of clear accountability concepts and to foster the improvement of accountability practices in government. Expected results include improvements, such as:

- better reporting of performance information that provides a meaningful and balanced picture of how well an entity has achieved its expected results;



- central agencies assuming a leadership role, supported by departments, to ensure that government-wide initiatives are carried out as desired;
- more effective accountability in alternative service delivery arrangements through such means as clear roles and responsibilities, credible reporting, effective accountability mechanisms, a better framework for audit and evaluation, and mechanisms to ensure transparency and protection of the public interest; in addition, assessments of service agency performance information conducted by the Office provide assurance to Parliament and other users that the information reported is fair and reliable; a more concrete and balanced account of agency performance is also expected through suggestions made by the Office in assessing the fairness and reliability of the performance information of service agencies; and
- more effective use of performance information by parliamentarians through committee oversight and reporting, or by decision makers in Cabinet, central agencies and departments.

3.9 As part of our work on accountability we are interested in the extent to which new governance and financial arrangements are being adopted. We plan to explore the implementation of accountability frameworks for new governance arrangements in our audit of airport transfers, among others, and study the challenges around sector or government-wide performance reporting.

3.10 Another major topic in 2000–01 will be an assessment of the government’s progress to implement performance reporting, improve the quality of performance reports, and manage and account for results. This work will affect most major departments and will continue to be monitored.

3.11 Finally, our work in 2000–01 will include an assessment of selected accountability practices in Crown corporations.

Priority 3: Improve the quality of financial management in government.

3.12 The Office has a long-standing concern about the quality of financial management in government. For example, decision makers have not always had adequate information on the cost of activities, or information linking financial and operational results. Some success has been achieved because of the capabilities of particular individuals, but these capabilities have seldom been institutionalized. A more effective comptrollership capability both at the center of government and in individual departments and agencies is essential to successfully renew the government’s accounting systems and to meet the objectives of its Financial Information Strategy. The main changes will be accrual accounting throughout the year, strengthened accounting for tax revenues, adoption of improved accounting for capital assets and the linkage of financial and operational results. We are encouraged by the government’s commitment to achieve these goals by 2001–02.

3.13 In the fall of 1997, the government received the report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada. The government has indicated that it is taking this report and its recommendations to heart and is setting up the leadership necessary to move forward. The Office encourages the government's efforts to improve comptrollership. Financial management lies at the core of comptrollership. In April 1999, the Office published its Financial Management Capability Model. The Model sets out a framework that describes the key elements departments and agencies need to achieve effective financial management and that provides a basis for assessing the current state of financial management. Using the model as audit criteria we have begun to assess financial management capabilities in five departments and will report the results of this exercise in the fall of 2000.

3.14 The key result will be to strengthen financial management and comptrollership capabilities in the departments covered by our audit.

Priority 4: Contribute to necessary changes in the public service.

3.15 The "necessary changes" referred to are those required to reform and renew the public service. In part, these changes flow from the policy decisions taken during and since Program Review that redefined some of the responsibilities of the federal government and led to downsizing and changes in the types of functions that remain. There is a need to rejuvenate the work force and ensure that gaps in expertise are filled. There is also a need to resolve long-standing issues of human resource management (HRM) pertaining to, for example, job classification and staffing systems.

3.16 Work on this priority includes monitoring reform and renewal initiatives in the public service, and auditing the main elements of HRM. We intend to publish value-for-money audits and studies of government-wide issues as well as work dealing specifically with the Treasury Board Secretariat and other departments. Special examinations of Crown corporations will also address HRM issues. Expected results include improvements, such as:

- modernized and decentralized key HRM systems (e.g., classification and staffing) where appropriate;
- evidence that the public service is seeking continuous improvement and learning from its successes and mistakes;
- informed dialogue with Parliament on the importance of the public service as an institution and on public service management issues such as risk taking, leading to parliamentary reviews of public service issues;
- line managers held accountable for their people management skills as a critical element in the assessment of their performance; and
- streamlining and clarification of the HRM roles and responsibilities of central agencies.



Priority 5: Help improve the federal government's performance in protecting the environment and promoting sustainable development.

3.17 There are specific results the Commissioner of the Environment and Sustainable Development would like to achieve in the next few years, in particular:

- narrowing the gap between policy promises and performance, which would be demonstrated by examples of successful program implementation to meet the federal government's sustainable development objectives;
- strengthening co-ordination and integration, which would be demonstrated by examples of effective co-operation between departments, with other governments and with the private and voluntary sectors on issues that cut across departmental mandates and political jurisdictions;
- improving information for Parliament, which would be demonstrated by examples of new and better information being used by parliamentarians or decision makers to set priorities, design policies and programs, assess progress and report on accomplishments; and
- assessing departments' and agencies' second sustainable development strategies, which will be presented to the House of Commons by December 2000; the document *Moving Up the Learning Curve: The Second Generation of Sustainable Development Strategies*, released in December 1999, sets out the Commissioner's expectations for those strategies and will form the basis for assessing them.

3.18 Other work on environment and sustainable development could touch all the entities we audit. Government-wide and entity-specific value-for-money audits will address environmental issues, for example in Environment Canada, Natural Resources Canada, Fisheries and Oceans, and Agriculture and Agri-Food Canada. Financial audits will continue to examine the accounting for environmental liabilities in the financial statements of government. In Crown corporations and other entities, we will, where appropriate, look for opportunities to encourage the use of sound environmental management practices.

Details by Component of Business Line

3.19 The business line of the Office is legislative auditing, which is divided into five main components as shown in Exhibit 3.3. The allocation of resources is driven initially by the demands of financial audits, most of which are required by legislation to take place annually. Special examinations of Crown corporations are required every five years, and must provide the assurance set out in legislation. Our remaining resources are allocated to value-for-money auditing and environmental and sustainable development work.

Exhibit 3.3 — Planned Spending by Component of Legislative Auditing

(\$ millions)

Component	Planned Spending 2000-01
Value-for-money audits of departments and agencies	31.5
Financial audit of the Financial Statements of the Government of Canada	4.5
Financial audits of Crown corporations and other entities	14.8
Environment and sustainable development monitoring activities	1.4
Special examinations of Crown corporations	1.8
Total	54.0

Value-for-Money Audits of Departments and Agencies

3.20 Value-for-money (VFM) or performance auditing examines management practices, controls and reporting systems with a focus on results. It does not question the merits of government policies; rather, it provides information to help legislators judge how well policies and programs have been implemented.



The main products are chapters or other audit observations in the periodic reports of the Auditor General to Parliament, but this work could also result in special publications, methodology, briefings for parliamentary committees, speeches and management letters.

3.21 VFM audits are more discretionary in scope and frequency than either financial audits or special examinations. To identify matters that are of most interest and significance to Parliament, we consider:

- the importance of each program or subject, the level of expenditure, the level of interest among members of Parliament, the degree of risk involved in the program's delivery, and the priorities the Office is addressing;
- the complexity of the program or subject and the level of resources needed to audit it, and whether it falls within the Auditor General's mandate; and
- past audit coverage by the Office and other review work carried out by the government or other knowledgeable observers.

3.22 Our planning begins with considering broad issues and overall priorities, needs and expectations of Parliament and other key stakeholders, and allocated resources. External input to this process comes from informal consultations with members of Parliament, deputy ministers and external advisors, and from professional interaction.

3.23 We attempt to schedule VFM audits to cover the most significant issues in a reasonable period of time. Audit teams have developed five-year audit plans for each of



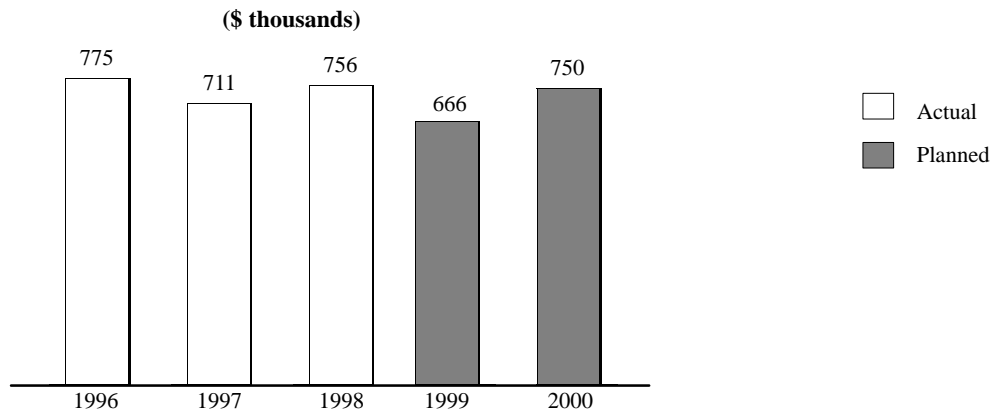
the 25 major departments and agencies of the federal government and approximately 12 areas that could cross departmental lines, such as accountability and results measurement, financial management, human resource management, major capital projects, compliance with authorities, sustainable development and information technology. Emerging issues are evaluated within this framework and the five-year plans are updated each year.

3.24 Our VFM plans for 2000–01 include seven chapters dealing primarily with accountability and results measurement issues, 13 with economy and efficiency of the public service, eight with environment and sustainable development, and six with management of revenues and expenditures. Three chapters will follow up on recommendations in our previous reports and one chapter will present other audit observations.

3.25 The Auditor General intends to publish a “capstone” report at the end of his term in February 2001. This report will cover the challenges and accomplishments of the 10 years of his mandate. It will address the role of legislative auditing in the federal government and trends in key management areas according to the Office. These areas will likely include structural changes in federal administration, fiscal management, the state of the public service and performance and financial management. The report will also address trends in the management of programs at the Canada Customs and Revenue Agency, National Defence, Human Resources Development Canada, Fisheries and Oceans and Indian and Northern Affairs Canada. The capstone report will replace one periodic report to Parliament.

3.26 VFM and government-wide audits and studies do not have generally accepted indicators of performance or quantifiable measures that are easy to compare with those of other legislative auditors. We pay close attention to planning and managing the cost, timeliness and results of audits. We believe we can maintain our coverage while keeping the average cost of VFM audits at approximately \$750,000, as shown in Exhibit 3.4. This does not include government-wide audits and studies, each of which is unique in scope and coverage.

Exhibit 3.4 — Value-for-Money Audits of Departments and Agencies – Average Cost



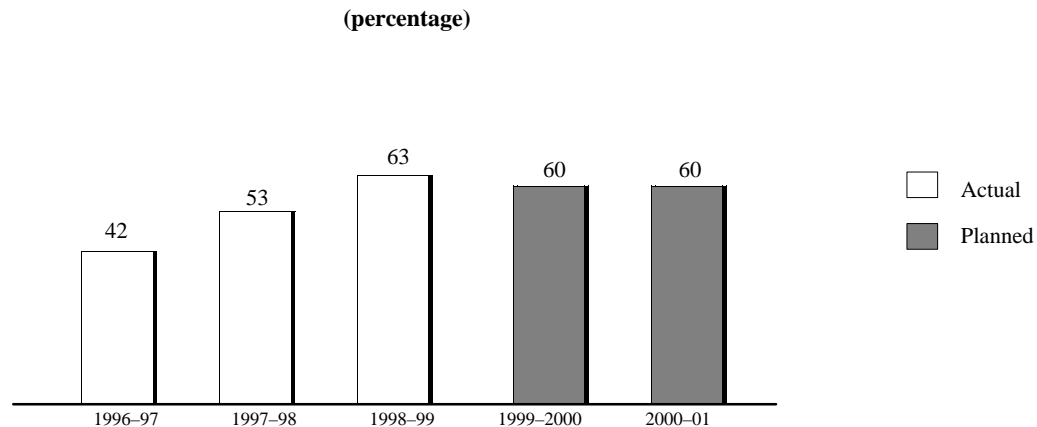
Parliamentary Activities

3.27 Parliament is our primary client. Knowing our client and providing parliamentarians with the opportunity to know their auditor helps us to serve Parliament better. In this context, our objective is two-fold. First, with parliamentarians, we seek to promote awareness and understanding of matters reported by the Auditor General. Second, within the Office, we encourage a better understanding of the needs and interests of parliamentarians. We achieve this objective by consulting major stakeholders and by undertaking a number of initiatives, including regularly meeting parliamentarians and research staff to discuss their interests.

3.28 The Standing Committee on Public Accounts and other committees of the House of Commons and the Senate frequently seek information and advice from the Office. The parliamentary hearing process helps us to promote an awareness of the issues we raise in our reports. We communicate regularly with standing committees to apprise them of these issues.

3.29 Exhibit 3.5 shows the percentage of our reports that were the subject of one or more parliamentary committee meetings and our projected targets for 1999–2000 and 2000–01.

Exhibit 3.5 — Reports Subject to One or More Parliamentary Committee Meeting



Response to Our Observations and Recommendations

3.30 Our Professional Practice and Review Group has recently completed a study of past audit recommendations. Data on recommendations made in VFM chapters from 1994 to 1996 indicated a decline in the number of recommendations that had been fully implemented. The Group identified a number of factors that could have caused this decline: difficulty to implement government-wide recommendations; instances in which

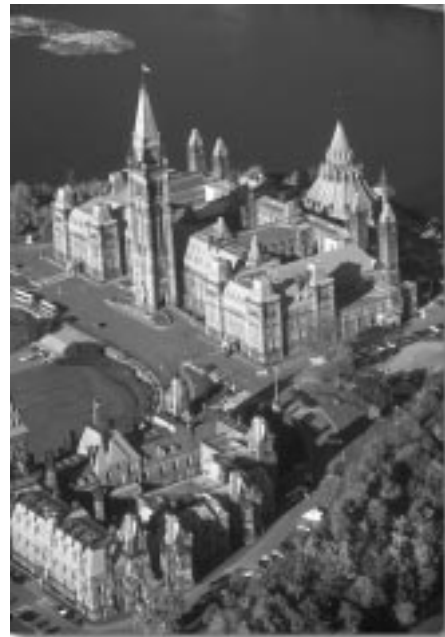
initial satisfactory progress by departments was not sustained; loss of management continuity within departments to see recommendations through to full implementation; need for further improved tracking of recommendations after our mandatory two-year follow-up.

3.31 We plan to undertake a number of initiatives to improve the response to audit recommendations and our ability to track progress. For example, we are developing a new database that will help us to continuously acquire verifiable information and track progress against recommendations.

3.32 Planned spending on VFM audits amounts to about \$31.5 million for 2000–01. This includes VFM audits and studies that have a significant environmental and sustainable development content.

Financial Audit of the Financial Statements of the Government of Canada

3.33 The purpose of the Financial Statements of the Government of Canada is to provide information to Parliament, and thus to the public, that helps to understand and evaluate the full nature and extent of the financial affairs and resources for which the government is responsible. The financial statements present the financial position of the government at the end of a fiscal year (31 March) as well as the results of operations, financial requirements and changes in its financial position during the year. The Government of Canada prepares these financial statements in accordance with its stated accounting policies and includes them annually in the Public Accounts of Canada.



3.34 The Auditor General examines the financial statements in accordance with generally accepted auditing standards to obtain reasonable assurance that they are free of material misstatement, and he expresses an opinion on the fairness and consistency of their presentation. In this way, the Office lends credibility to these statements. If the examination discloses that the financial statements contain material misstatements, the Auditor General will qualify his opinion on them.

3.35 For the year ending on 31 March 1999, the opinion on the financial statements did not contain any qualifications. The Auditor General had presented his last unqualified opinion on the financial statements for the year ending on 31 March 1996.

3.36 As part of the annual audit of the Public Accounts of Canada, audit teams review transactions on a test basis in selected large entities to see if these entities conformed to

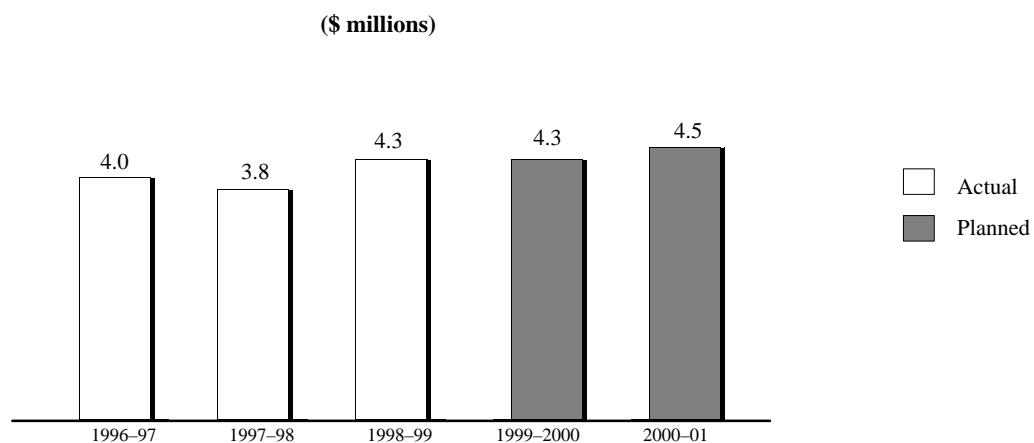
selected laws and regulations that govern their operations. This involves checking the spending authority contained in appropriations acts and other relevant legislation. Compliance audit work of this nature is also part of all the other audits done by the Office.

3.37 The government plans to improve the usefulness and timeliness of its financial information by implementing the Financial Information Strategy (FIS). The main elements of FIS are the modernization of systems and the implementation of accrual accounting and the integration of accrual accounting into day-to-day management.

3.38 The vision of FIS is to enhance the government's decision making and accountability and improve organizational performance through the strategic use of financial information. With the modernization of systems, accounting data will be moved from central accounting systems maintained by the Receiver General for Canada to new departmental systems.

3.39 Planned spending for this component of our work is approximately \$4.5 million for 2000–01 (see Exhibit 3.6). This amount is similar to what we reported in prior years. However, the creation of the Canada Customs and Revenue Agency will result in the transfer of about \$1 million in planned costs from our audit of the Financial Statements of the Government of Canada to our audits of 'Other Entities' (Exhibit 3.8). This will be offset by increased spending due to new audit work required by the phased implementation of FIS. In 1999–2000, several departments adopted new systems and the Receiver General implemented new central systems. This will require more effort and the conversion of tools to audit these new departmental and central systems. In 2000–01 more departments will modernize their systems and the implementation of accrual accounting will lead to more audit work. Full implementation is planned in 2001–02 or later and the increased amount of audit work will continue as a result.

Exhibit 3.6 — Financial Audit of the Financial Statements of the Government of Canada – Annual Costs



Financial Audits of Crown Corporations and Other Entities



3.40 We audit the annual financial statements of about 90 government organizations including:

- *Crown corporations*, such as the Canadian Broadcasting Corporation;
- *other entities*, such as the Canada Pension Plan and the Employment Insurance Account as well as new agencies like the Canada Customs and Revenue Agency; and
- *territorial governments, agencies and corporations*, such as workers' compensation boards, colleges and housing corporations.

3.41 We examine these financial statements to obtain assurance that these entities have, in all significant respects, operated in compliance with key legislative authorities during the year. We also express an opinion on the fairness of the statements' presentation in accordance with professional accounting standards. Our financial audits of these entities provide assurance to ministers, parliamentarians, elected members of the territorial assemblies and various other stakeholders.

3.42 We also provide objective information and advice to assist audit committees (or their equivalent) in discharging their responsibilities for financial accounting and reporting matters, internal control and other related governance issues.

3.43 Our annual audits of *other entities* have recently grown since the creation of three major service delivery agencies: the Canadian Food Inspection Agency (on 1 April 1997); the Parks Canada Agency (on 1 April 1999); and the Canada Customs and Revenue Agency (on 1 November 1999). The 1999–2000 audit cycle will be the first to comprise annual audits of these entities, although the full impact of the Canada Customs and Revenue Agency will not be known until the 2000–01 audit cycle. We will also assess the performance information reported by these agencies.

3.44 Our annual audits of *territorial governments, agencies and corporations* has also increased significantly since the creation of the Territory of Nunavut on 1 April 1999. The full impact of this development on our annual costs will be known in 2000–01.

3.45 After several years of decline, our annual audit costs began to increase during the 1998–99 audit cycle, mainly because of salary increases introduced after several years of wage freezes. We will take further steps to control cost increases.

3.46 The Office has developed a Quality Management System (QMS) to provide reasonable assurance that its annual audits comply with applicable legislative requirements, professional standards and internal policies. In 1999 we asked an

independent firm to audit the design and application of the QMS for annual audits. The results of this audit are expected early in 2000.

3.47 We will launch a number of projects in 2000–01 to improve the QMS and eventually reduce our annual costs. These projects include a benchmarking exercise with comparable organizations, a review of our documentation practices and other initiatives.

3.48 Given these developments, planned spending for this component of our work is approximately \$14.8 million for 2000–01. Exhibits 3.7, 3.8 and 3.9 illustrate how the changes discussed above are expected to affect the costs of our annual audit practice.

Exhibit 3.7 — Financial Audits of Crown Corporations – Costs

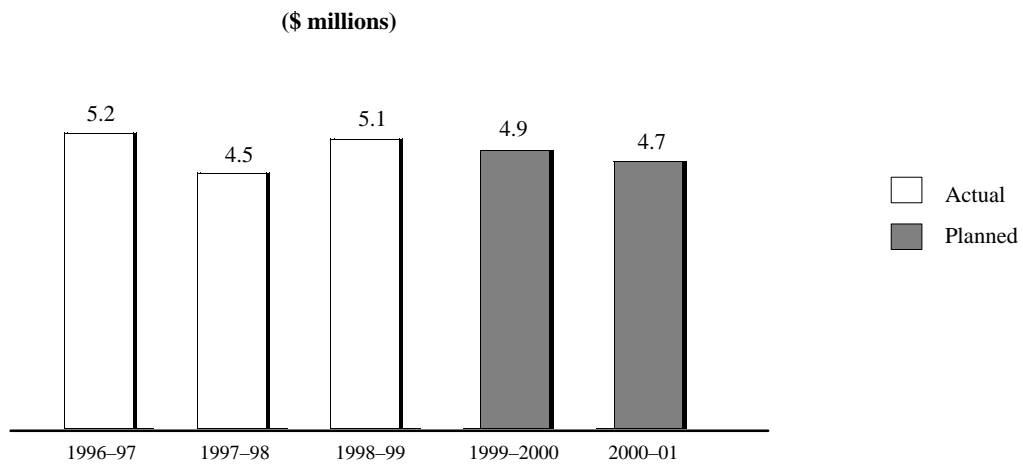


Exhibit 3.8 — Financial Audits of Other Entities – Costs

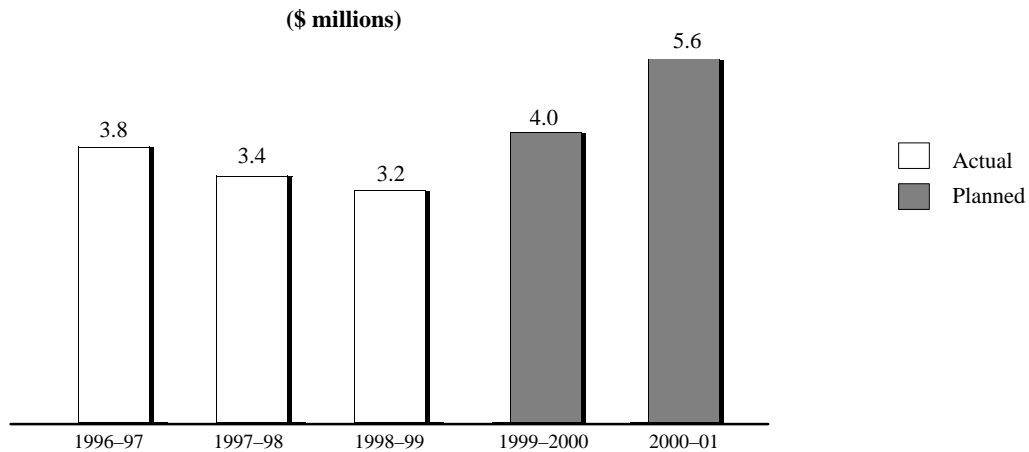
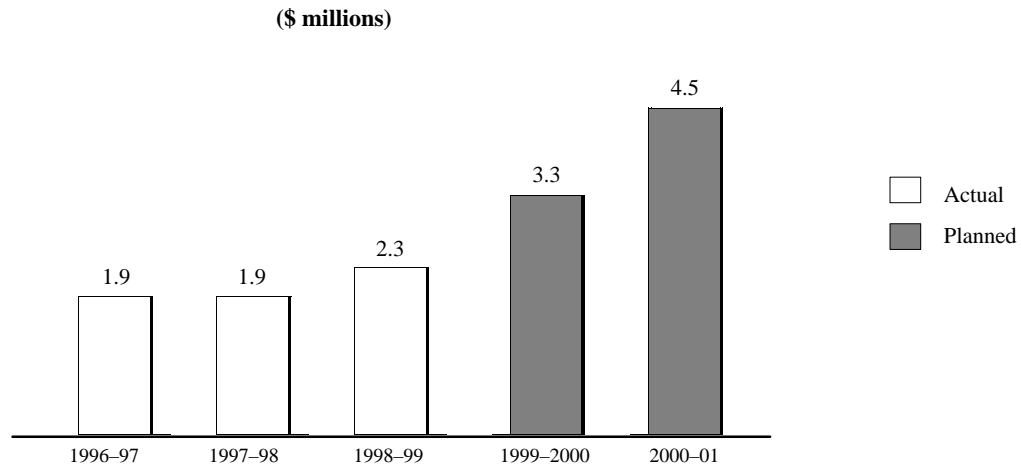


Exhibit 3.9 — Financial Audits of Territorial Governments, Agencies and Corporations – Costs



Environment and Sustainable Development Monitoring Activities

3.49 All value-for-money audits and studies that have a significant content on the environment and sustainable development have been integrated into our regular value-for-money audits along with the financial requirements for completion of these audits and studies. Planned spending for this work is approximately \$4.7 million for 2000-01.

3.50 The major annual outputs of the Commissioner's Office are as follows:

- issuing the Commissioner's annual report to the House of Commons;
- monitoring and reporting the extent to which departments and agencies have implemented their action plans and met the objectives outlined in their sustainable development strategies; a thorough assessment of the following government organizations will be completed in 2000-01: Economic Development Agency of Canada for the Regions of Quebec, Fisheries and Oceans, Department of Canadian Heritage, Canada Customs and Revenue Agency, Solicitor General Canada and Western Economic Diversification Canada; and
- handling all public petitions received by the Commissioner.



3.51 Planned spending for the Commissioner's Office is approximately \$1.4 million for 2000–01.

Special Examinations of Crown Corporations

3.52 Special examinations of Crown corporations are required by the *Financial Administration Act* (or in some cases other legislation) once every five years. In addition, the Governor in Council sometimes asks us to carry out special examinations of Crown corporations that are exempt from this requirement. The private sector does some examinations, a few with us in fact, but we execute most of them. Legislation requires the examiner to provide an opinion on whether the corporation's management systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively.



3.53 Because of differences in the size, complexity, mandates and risks associated with these corporations, the amount of effort needed to form an individual opinion is less predictable than in financial statement audits. We have developed practices that respect legislative requirements, professional standards, and the need to be efficient.

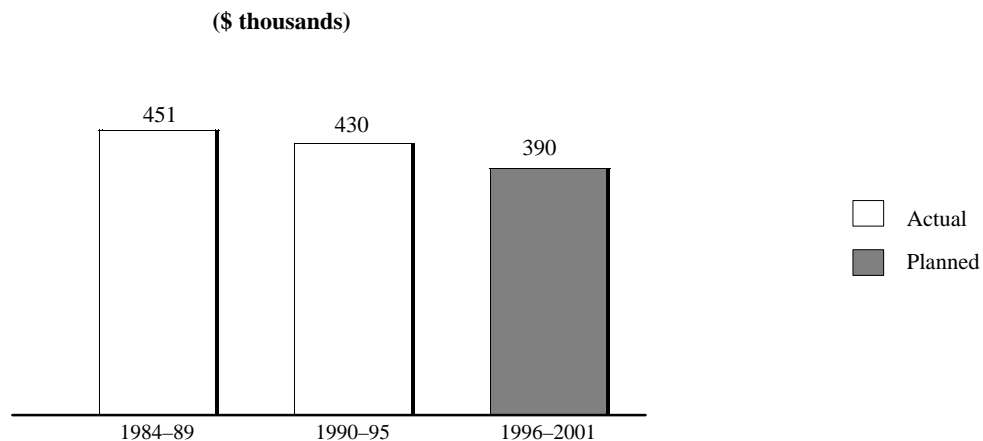
3.54 Special examinations are carried out over a period of years (a cycle). The first cycle took place between 1984 and 1989, the second between 1990 and 1995.

3.55 The Office's third round of examinations of 34 Crown corporations should end by 2000–01. During this year, it plans to examine the Canadian Dairy Commission, the Canadian Museum of Civilization, the Canadian Museum of Nature, the Canada Lands Company, the Canadian Broadcasting Corporation and Petro-Canada Limited.

3.56 Of the 34 corporations, the Office has examined 17 in the past three cycles. Our planned average cost for the current examination cycle of these 17 corporations is \$390,000 (see Exhibit 3.10). Costs are decreasing because of improved methodology and the experience gained from previous cycles.

3.57 Planned spending on special examinations is approximately \$1.8 million for 2000–01.

Exhibit 3.10 — Special Examinations of Crown Corporations – Average Cost by Cycle



Update on Internal Matters

3.58 Here is a description of the planned activities for 2000-01.

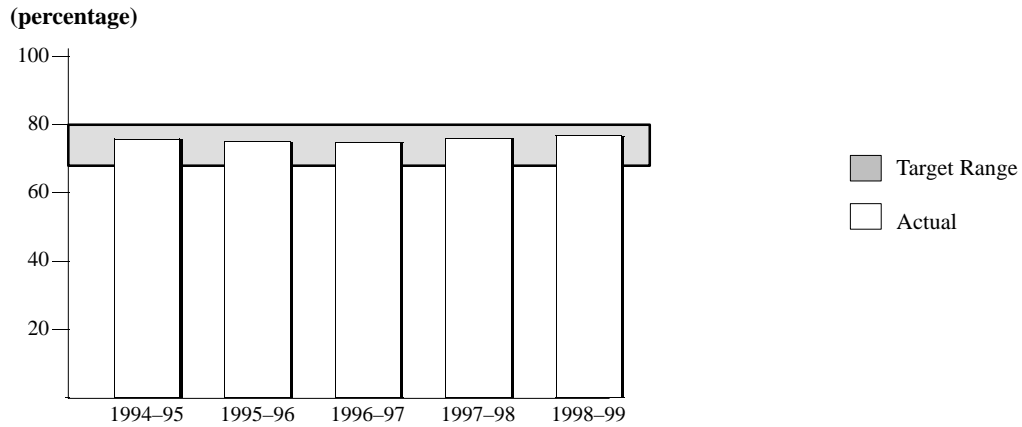
- As part of its commitment to continuous improvement, the Office assessed in 1999 the effectiveness of the QMS for its VFM audit practice. In the coming year, the Office will implement a consolidated action plan to address opportunities for improvement. To that end, it is developing a database to track progress against the recommendations made in its VFM audits to Parliament.
- The Office supports the government's FIS. It is committed to implementing a new financial system and appropriate accrual accounting policies, to training its managers and administrative staff, and to providing better information for management decision making. These commitments will be met by the government's deadline of 1 April 2001.
- With the implementation of the new Framework for Managing Office Accommodation, developed by Public Works and Government Services Canada, the Office has embarked on a space renewal and office modernization project. The purpose of this project is to provide more functional work environments for our employees while using less space. The project should be completed by April 2002.

Audit Project Hour Ratio

3.59 The audit project hour ratio (APHR) represents the percentage of available staff time that is spent directly on our audit products. Available staff time is the total hours available for all staff less any leave taken. Given the need for staff training and development and time required for various professional and administrative activities, we have determined that an acceptable APHR range is between 70 percent and 80 percent for

our Audit Operations Branch (see Exhibit 3.11). In recent years, we have maintained our APHR in the target range and we expect this to continue in the future.

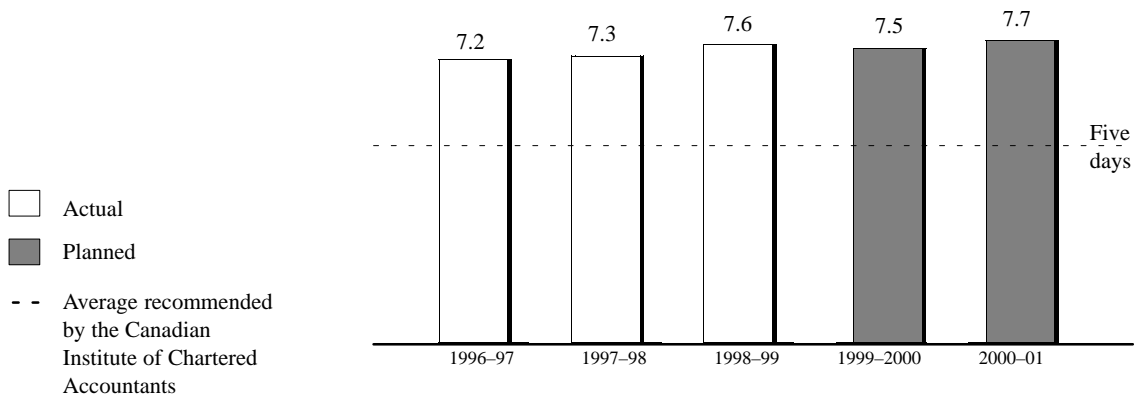
Exhibit 3.11 — Audit Project Hour Ratio – Audit Operations Branch



Training Activity for Audit Professional Staff

3.60 Exhibit 3.12 shows the average training in days per year for our audit professional staff. The Canadian Institute of Chartered Accountants recommends an average of five days of training per year or 15 days over three years. Our forecasts for 1999–2000 and 2000–01 exceed this average.

Exhibit 3.12 — Average Training Days per Year – Audit Professional Staff



SECTION 4

Horizontal Initiatives

Sustainable Development Strategy

4.1 In Chapter 37 of our December 1997 Report, we voluntarily presented a sustainable development strategy with our Office's goals, objectives and key performance indicators. Exhibit 4.1 summarizes our strategy, indicators and targets for 2000–01 and beyond. None of these indicators or targets, taken separately, is perfect. However, used together judiciously, they will enable us to evaluate our influence and our progress toward sustainable development. In 2000–01 we plan to review our current strategy and update it for 2001–04.

Exhibit 4.1 — Sustainable Development Strategy

Goals	Objectives	Key Performance Indicators 2000–01
<p>Audit Work</p> <p>To promote sustainable development by:</p> <ul style="list-style-type: none"> • providing advice and information to parliamentarians and members of territorial legislative assemblies to help them consider the environmental and sustainable development consequences of their legislative and oversight work; • supporting federal and territorial organizations in their efforts to integrate environmental and sustainable development considerations into their decision making for policies, programs and operations; • providing a means for Canadians to draw environmental and sustainable development concerns to the attention of the Government of Canada. 	<ul style="list-style-type: none"> • To incorporate the environment and sustainable development as an integral part of our audit work. • To monitor the extent to which federal and territorial organizations have met the objectives and implemented the action plans set out in their sustainable development strategies. • To help strengthen the capacity of federal organizations to manage environmental and sustainable development issues. • To monitor the replies by departments to petitions made by Canadians about environmental and sustainable development concerns.¹ 	<ul style="list-style-type: none"> • Percentage of parliamentarians who felt that our reports added to their knowledge of environment and sustainable development (who found our reports useful). Baseline 1998–99: 38%² Target 1999–2001: 60% Target 2003–04 and beyond: same as for all Office reports. • Percentage of Office references in the House of Commons and the Senate that were about environmental and sustainable development issues. Baseline 1997–98: 15% Target 1999–2001: 25% • Percentage of our recommendations related to environment and sustainable development on which satisfactory progress was made³. Baseline 1997–98: 48% fully implemented or satisfactory Target 1999–2001: 60% Target 2003–04 and beyond: 70% • Percentage of federal organizations that comply with appropriate standards of practice for protecting the environment and promoting sustainable development⁴. Baseline 1998–99: 32% Target 2000–01: 75%

Goals	Objectives	Key Performance Indicators 2000–01
<p>Administrative Activities</p> <p>To optimize the use of natural resources and to minimize the negative environmental impacts of the Office's day-to-day operations.</p>	<ul style="list-style-type: none"> • To reduce consumption of paper and paper products. • To increase the “greenness” of our purchases. • To reduce consumption of energy and water. • To maximize the capture of recyclable material and reduce production of waste. • To encourage the use of environmentally-responsible transportation for our audit work whenever it is time-efficient and encourage the use of teleconferencing. 	<ul style="list-style-type: none"> • Quantity of paper consumed per employee per year. <i>Target 1999–2000: 5% reduction from 1998–99</i> • Percentage of stocked products that are Ecologo. Baseline to be established in 1999–2000.
<p>Human Resources</p> <p>To support activities that recognize our employees as our greatest assets in pursuing our sustainable development goals.</p>	<ul style="list-style-type: none"> • To enhance the capacity of Office staff to recognize and integrate sustainable development issues into their audit work. • To increase staff awareness and practice of sustainable development efforts in the Office's day-to-day operations and society at large. 	<ul style="list-style-type: none"> • Self-assessment of staff ability to recognize audit issues of sustainable development. Baseline to be established in 1999–2000 • Percentage of audit staff who participated in sustainable development training sessions. <i>Target 1999–2000: 50%</i> <i>Target 2000–01: 65%</i> <i>Target 2003–04: 80%</i>

¹Results for this objective are included in the Commissioner's Observations contained in the annual Report of the Commissioner of the Environment and Sustainable Development.

²Results from our November 1998 survey of members of Parliament.

³The appropriateness of this indicator is under review.

⁴The capacity of departments to implement their sustainable development strategy is assessed using appropriate standards of practice and is presented in the annual Report of the Commissioner of Environment and Sustainable Development.

SECTION 5

Financial Information

Table 5.1 — Details of Transfer Payments for Business Line (\$ millions)

Contribution	Spending			
	Forecast 1999–2000	Planned 2000–01	Planned 2001–02	Planned 2002–03
Legislative Auditing				
CCAF – FCVI Inc.	0.4	0.4	0.4	0.4

Table 5.2 — Source of Non-Respendable Revenue (\$ millions)

Business Line	Revenue			
	Forecast 1999–2000	Planned 2000–01	Planned 2001–02	Planned 2002–03
Legislative Auditing				
Charges for Audits	0.8	0.8	0.8	0.8
Total Non-Respendable Revenue	0.8	0.8	0.8	0.8

Table 5.3 — Net Cost of Program for 2000–01 (\$ millions)

	Total 2000–01
Planned Spending	54.0
Less: Non-respendable revenue ¹	(0.8)
Plus: Services received without charge ²	<u>6.0</u>
2000–01 Net Cost of Program³	59.2

¹The Office charges for a small number of audits. The largest billings for such services are to the International Civil Aviation Organization and the United Nations Educational, Scientific and Cultural Organization. These funds are not used by the Office but are returned to the Consolidated Revenue Fund as non-respendable revenue.

²In addition to the budgetary expenditures for 2000–01, there are other costs associated with the operation of the Office. These costs, although not paid directly by the Office, represent services received without charge from other government departments. They are:

Accommodation (Public Works and Government Services Canada)	4.1
Employee Insurance Premiums (Treasury Board)	<u>1.9</u>
	<u>6.0</u>

³The outputs of the Office are the various reports on audits and studies, opinions, and management letters, resulting from the audit process. The Office allocates net program costs to its outputs. In addition to direct costs, which are allocated to each output based on hours worked, certain of the Office costs are of an overhead nature: for example, administration, official languages and accommodation. These cannot be directly attributed to our outputs. However, they must ultimately form part of the costs of our outputs. Accordingly, the Office has developed a cost accounting system that allocates overhead to our outputs. Thus, the cost associated with each output is a “fully loaded” cost; in aggregate these total the net program cost of the Office.



SECTION 6

Other Information

A. Listing of 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 the Internet at www.oag-bvg.gc.ca
• 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 the Internet at www.oag-bvg.gc.ca
• Opinion of the Auditor General on the Financial Statements of the Government of Canada	published annually in the Public Accounts of Canada, Volume I and available on the Internet at www.pwgsc.gc.ca/text/pubacc-e.html
• Opinion on the Condensed Financial Statements of the Government of Canada	published annually in the Annual Financial Report of the Government of Canada
• Opinions by the Auditor General on some 90 financial statements of parent Crown corporations, federal departmental corporations and other federal entities, territorial governments and organizations, other Canadian entities and international organizations	published in the various statutory reports containing the financial statements of these organizations and Treasury Board's Annual Report to Parliament on Crown Corporations and Other Corporate Interests in Canada
• Special examinations of Crown corporations	submitted to the respective boards of directors every five years for each Crown corporation
• 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 the respective assemblies

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