

Chapter 5

Office of the Auditor General

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Office of the Auditor General

Accountability statement

This chapter of my Report reflects the performance of my Office for the year ended March 31, 2010. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

This chapter presents a comprehensive picture of the Office's actual performance. The chapter includes estimates and interpretive statements that represent the best judgment of management. The performance indicators reported are consistent with the Office's mission, goals and objectives, and focus on aspects critical to understanding the performance of the Office.

I am responsible for ensuring that the Office's performance information is measured accurately and in a timely manner. Any significant limitations in the reliability of the performance data have been identified and explained.

This chapter has been prepared following the guidelines established in the Statement of Recommended Practice 2 (SORP-2) contained in the CICA Public Sector Accounting Handbook.



Kim MacPherson, CA
Auditor General

Mission and values

5.1 Our mission is:

We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.

5.2 Our values are:

- accountability, credibility and objectivity in our work;
- open communication with ourselves and our stakeholders while maintaining confidentiality; respect for our client, our auditees and each other;
- an enjoyable workplace that fosters a learning culture, continuing professional development and an honest work ethic;
- skilled, efficient and effective staff working in an environment that encourages personal responsibility for their work and for their careers; and
- a commitment to independence that merits the trust of the public and our colleagues.

5.3 Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out his work in a fair and objective manner. The Act requires the Auditor General to audit the Province's financial statements, and the financial statements of certain Crown agencies. It also requires the Auditor General to report annually on the results of his work, including whether money has been expended without due regard to economy or efficiency, and whether procedures have been established to measure and report on the effectiveness of programs. Exhibit 5.1 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

Exhibit 5.1 - Requirements of the legislation and how they are addressed

Requirements of the legislation	How they are addressed
Audit the accounts of the Province as the Auditor General considers necessary	Financial and VFM audit work done in departments each year; evidenced by the comments in our Reports
Audit the accounts of certain Crown agencies	Annual audits of financial statements; evidenced by our auditor's reports attached to the financial statements
Examine the financial statements included in the Public Accounts and express an opinion on them	Evidenced by our auditor's report attached to the Province's financial statements
Report annually to the Legislative Assembly on the work of the Office	Evidenced by the production of our annual Report
Report annually on whether, in carrying on the work of his Office, the Auditor General received all the information and explanations he required	We do this in our annual reports, referring to instances where we did not receive information.
Report anything the Auditor General considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly	Evidenced by the production of our annual Report
<p>Report any cases observed where:</p> <p>(a) any person willfully or negligently failed to collect or receive money belonging to the Province;</p> <p>(b) public money was not accounted for and paid into the Consolidated Fund;</p> <p>(c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;</p> <p>(d) an expenditure was made without authority or without being properly vouched or certified;</p> <p>(e) there has been a deficiency or loss through fraud, default or mistake of any person;</p> <p>(f) money has been expended without due regard to economy or efficiency;</p> <p>(g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used; or</p> <p>(h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.</p>	We report those matters that come to our attention. We address section (e) each year. Our value-for-money chapters address sections (f) and (g) and, where appropriate, section (h).

Factors influencing our performance and results

Independence could be enhanced

Capacity is restricted by budget limitations

5.4 Our credibility represents our greatest strength, but it is also our area of greatest risk. Our Office has no power to enforce compliance with our recommendations, but relies on the strength of our arguments, and our reputation with MLAs and the public, to bring about change. Were we to make an incorrect analysis, or reach an inappropriate conclusion, our credibility would be affected.

5.5 Two factors in particular have a bearing on our credibility: our independence, real and perceived, and our capacity to carry out high quality work. We consider them our critical success factors.

5.6 As stated above, the *Auditor General Act* gives us our independence. This Act clearly establishes the Auditor General's Office as an organization separate from government. It establishes the Auditor General as an Officer of the Legislative Assembly, and gives him authority to determine the structure of the Office and conditions of employment for the staff. However, the Act was introduced in 1981, and the sections dealing with independence have not been substantially changed since then. We believe there are some changes that could and should be made in order to further enhance the independence of the Office. Chief among them is in the way that the budget for the Office is currently established. Under the current Act, it is the Board of Management that determines the funding level for the Office. We believe it is inappropriate for government to be setting the financial limitations for an Officer of the Legislative Assembly; this should be done by the Legislative Assembly itself. And there are other areas of our Act that need to be brought up to date.

5.7 Our capacity to carry out high quality work is connected to the issue of independence. Government can restrict the work we do simply by controlling our budget. This issue is discussed in greater detail later in this chapter. We have noted a gradual reduction in our capacity over the last twenty years. In that time frame, our staffing has reduced from thirty full-time persons to twenty-one, as we have maintained a policy of staying within our assigned budget. We have reacted to the challenge by seeking efficiencies in our work practices, and by eliminating some audits and contracting out others. Despite the reduction in staffing, we have been able to maintain a core of individuals who are able to devote most of their time to what we call value-for-money, or performance, audits. These audits provide the bulk of the comments in our annual Reports.

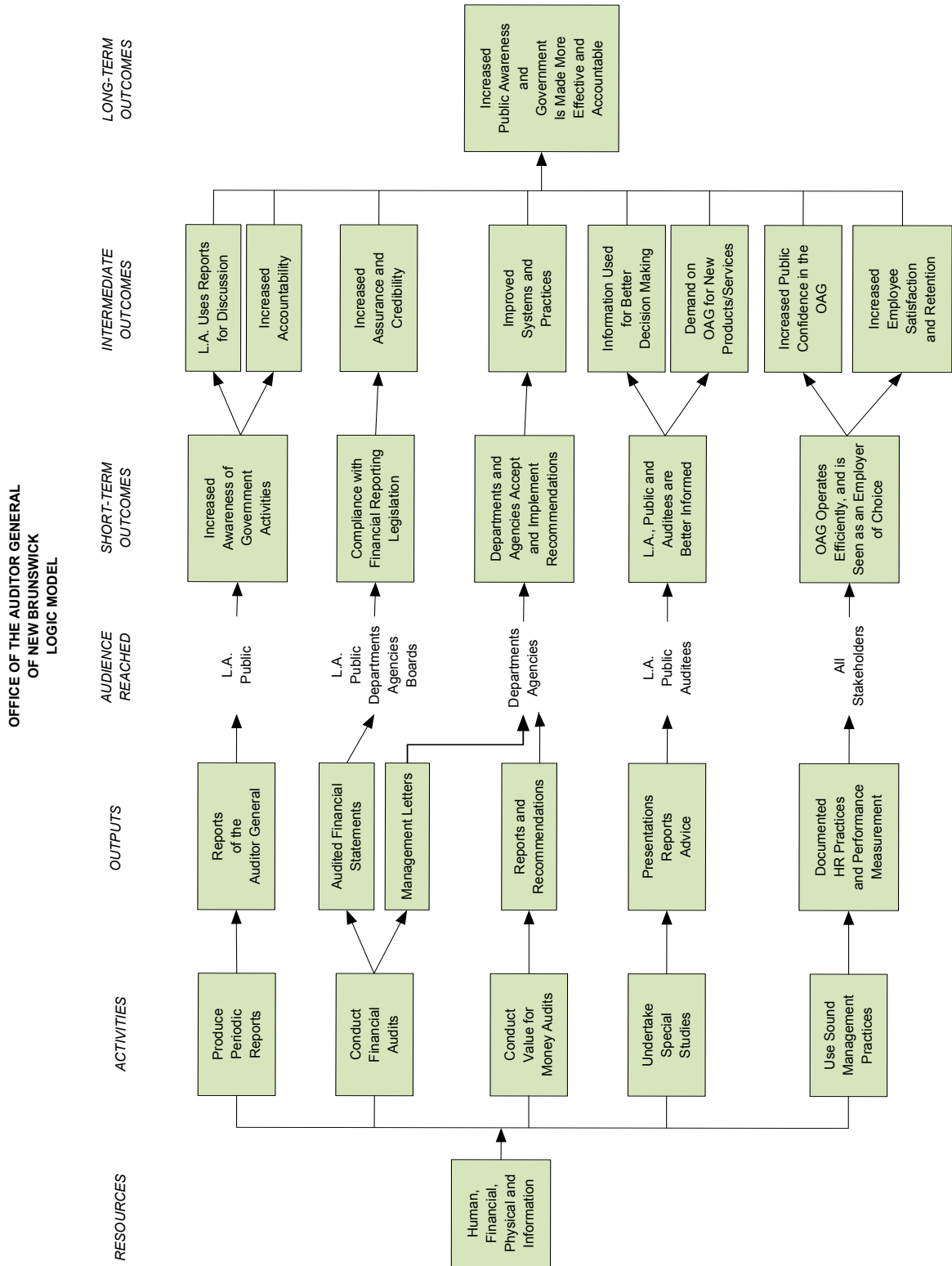
5.8 In recent years, however, we have been faced with unprecedented changes in accounting and auditing standards. Reacting to these changes has severely stretched our resources. We are now

seeing an increase in time spent on our financial audits, together with an increase in training needs. This is having the effect of reducing our ability to carry out value-for-money audits. We believe our value to the Legislative Assembly is enhanced by our ability to provide an independent, objective commentary on government programs. We are now at the stage where this ability is being compromised by our lack of resources. We have raised this issue in our recent budget submissions, and will continue to do so. Ultimately, the Legislative Assembly must decide what it expects the Office of the Auditor General to do, and provide sufficient funds with which to do it.

Linking goals and performance

5.9 Our strategic plan links the resources we have, and the activities we undertake, to the results we expect. It also explains how we go about measuring our performance. Exhibit 5.2 sets out the logic model we use, and Exhibit 5.3 shows our measurement framework. Our ultimate goal is that, as a result of our work, government is made more effective and accountable. However, this can be difficult to measure, as well as hard to attribute to the specific work we do. So our measurement focuses on what we call short-term and intermediate outcomes, which are more directly attributable.

Exhibit 5.2 Logic model



LEGEND

OAG – Office of the Auditor General
L.A. – Legislative Assembly

Exhibit 5.3 Measurement framework

Goals	Activities	Outcomes		Measuring our Performance (Indicators)
		Short Term	Intermediate	
The Legislative Assembly and the public are aware of and value all the work that we do, and have confidence in our ability to provide timely, objective and credible information.	Produce periodic reports	Increased public awareness of government activities	L.A. uses them for discussion increased accountability	MLA perception, as determined by survey
	Conduct financial audits	Compliance with financial reporting legislation	Increased assurance and credibility	Audits are carried out within budget and auditee time deadlines are met MLA perception, as determined by survey Auditee perception, as determined by survey
	Undertake special projects	Legislative Assembly, public and auditees are better informed	Information used for better decision making Demand on our office for new products/services	MLA perception, as determined by survey Auditee perception, as determined by survey
Departments and agencies accept and implement our recommendations	Conduct financial and VFM audits	Departments and agencies accept and implement recommendations	Improved systems and practices	Percentage of recommendations accepted Percentage of recommendations implemented
In carrying out our work we will use sound management practices.	Document and follow good HR practices	The Office operates at a high level of efficiency, and all employees feel they are treated fairly and consistently	Increased public confidence in the OAG	MLA, auditee and employee perception, as determined by survey Accountability reporting - Cost of Audits (economy) - Percentage of time spent on audit work (efficiency)
We will provide an attractive work environment that allows opportunities for professional growth.	Provide staff with a mix of challenging work that allows them to work in their areas of personal interest, and give priority in time and funding to opportunities for professional development	OAG is seen as an employer of choice	Increased employee satisfaction and retention	Employee perception, as determined by survey.

Measuring our progress

5.10 Our performance over the last year is discussed in the following section.

5.11 We are using eight indicators to assess our performance. Exhibit 5.3 links each indicator to a specific goal in our strategic plan. Our eight indicators are:

1. MLA perception, as determined by survey
2. Auditee perception, as determined by survey
3. Percentage of recommendations accepted
4. Percentage of recommendations implemented
5. Employee perception, as determined by survey
6. Completion of audits on time and on budget
7. Use of our time, focusing on the percentage of time spent on audit work
8. Cost of our audits

MLA survey

5.12 Periodically, we survey the Members of the Public Accounts and Crown Corporations Committees in order to measure our effectiveness in meeting their needs. We did this in 2004, 2008, and again in 2009 following the issuance of our 2008 annual Report.

5.13 The Members who responded to our survey indicated a high degree of satisfaction with the work that we do. We converted the responses into a numerical index, which produced an overall satisfaction rate of 88.3%. We are pleased with this result, which is similar to the rate of 87.3% achieved in 2008, and 86.8% achieved in 2004.

Auditee survey

5.14 Following the completion of each significant audit, we survey the department or Crown agency to determine their level of satisfaction with our work.

5.15 The responses to our survey following our 2009 audits indicate a high degree of satisfaction with our work. We converted all the responses into a numerical index, which produced an overall satisfaction rate of 80.8%, compared to a rate of 80.4% in 2007 and 83.6% in 2006. Once again, auditees commented favourably on our knowledge, skill and professionalism. However, we received low marks in some of our value-for-money audits for our communication, the timeliness of our work and the objectives and criteria we used in the audit.

Acceptance and implementation of recommendations

5.16 We generally assess these two indicators together. Chapter 6 of Volume 3 of our 2009 Report provides an overview of the recommendations included in our 2005 through 2007 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2005 that have not been fully implemented.

5.17 Our work in 2009 showed that departments and agencies had fully implemented about 39% of our recommendations from 2005, 2006 and 2007. Less than half of our recommendations from 2005 had been fully implemented within the four years. We do not find this an acceptable response rate to recommendations that departments and agencies have agreed with. In our 2007 Report we called on government to be serious about implementing our recommendations, and suggested government consider issuing a short response to each of our annual Reports, listing its intention to pursue implementation of the recommendations.

5.18 Because of our limited staff resources, we did not conduct follow-up work in the current year on the recommendations included in our 2006 through 2008 Reports. However, we did contact all departments and agencies to obtain their assessment of the status of these recommendations. We intend to continue to track progress in this manner, and will supplement this with more focussed audit work in areas where progress is slow or non-existent.

Employee survey

5.19 In early 2010 we conducted another employee satisfaction survey. This provides us with feedback on topics such as quality of work life, communication and career development. We converted the responses into a numerical index, which produced an overall satisfaction rate of 68.8%, compared to a rate of 69.9% in 2007, and 66.3% in 2004.

5.20 We were disappointed to see a small decrease in the overall satisfaction rate from our previous survey. Following the 2007 survey, we developed and completed an action plan to address specific areas of concern. We will similarly address the issues arising out of the most recent survey.

Completion of audits on time and within budget

5.21 Our goal is to complete the audit of the Province's financial statements by July 31, and to complete all Crown agency and Trust Fund audits by September 30.

5.22 Our ability to achieve this objective is not totally within our control, because it depends on when our auditees close their books for

the year and are ready for us to do our work. Notwithstanding this, we believe the indicator is important because it results in us encouraging our auditees to be timely in their reporting. It also places a discipline on our Office to complete the audit work by a specific date.

5.23 The audit of the Province for the year ended March 31, 2009 was not completed by July 31, 2009. Our auditor's report on the Province's financial statements was dated August 21, 2009. It should be noted that the Province's *Financial Administration Act* requires the financial statements of the Province to be laid before the Legislative Assembly no later than September 30; in 2009 they were issued on September 28.

5.24 We are the auditors of seventeen Crown agencies and six pension plans. We completed ten of the Crown agency audits by September 30, 2009. Since 2007, we have contracted out the audits of the six pension plans to a private sector accounting firm, although we remain responsible for signing the auditor's reports. We did this primarily because of a shortage of staff in the Office to do the work. None of the pension plan audits were completed by September 30.

5.25 We establish detailed time budgets for each of our audits. During the audit, we monitor the time spent by staff members on individual sections of the work. At the end of each audit, we summarize the total time spent, compare it to the total budgeted hours and analyze major fluctuations. For our financial audits, we use the results of this analysis to help us prepare the budget for the following year's work.

5.26 The time spent on our 2009 audit of the Province's financial statements was close to our budget, and less than the time spent in 2008. We are spending a significant part of our time auditing government systems and controls, in order to comply with changes in auditing standards. However, that time can fluctuate from year to year depending on the complexity of the systems we select for audit.

5.27 Three of our Crown agency audits were significantly over budget. In some cases, this is a result of unanticipated accounting issues that took extra time to resolve. In other cases it is a consequence of inefficiencies on our part, sometimes caused by delays in the Crown agency producing financial statements for audit.

5.28 We completed four value-for-money audits during the year, which were included in our 2009 Report. One took significantly more

time than we had anticipated, due in part to extra time needed at the end of the audit as the findings were discussed and the report finalized.

Use of time

5.29 An important indicator for us is the percentage of time we spend directly on audit work. As shown in the following table, over the last three years, approximately 65% of our time is spent directly on financial statement audits or value-for-money audits. In the year ended March 31, 2010, 42% of this time was spent on value-for-money audits, compared to 48% in 2009 and 47% in 2008.

Exhibit 5.4 Allocation of paid working hours

	2010	2009	2008
Financial and value-for-money audits	64%	65%	65%
Professional development and training	9%	8%	7%
Support activities	27%	27%	28%
Total	100%	100%	100%

5.30 The time spent on professional development and training includes attendance at external courses and training sessions held in-house. It also includes attendance at conferences and participation on various groups and committees of relevance to legislative auditors. These types of activities are an essential part of maintaining a well-informed, high-performing workforce.

5.31 The time spent on support activities includes the bulk of the time of our two support staff. It also includes management time and staff time that can not be allocated directly to a particular audit project, such as staff meetings, technical reading and general office duties.

Cost of our audits

5.32 We have always budgeted and tracked the number of hours for each of our audits. However, in an effort to be as economical and efficient as we can be in the work that we do, we also track the cost of each audit. In the broadest sense, the cost of our audits can be said to be the cost of operating our Office, represented by our total expenditures set out later in this chapter. But we feel there is value in looking at each individual audit, and asking ourselves whether the results of the work done justify the cost of doing it.

5.33 The cost of the audit of the Province's financial statements for the year ended March 31, 2009 was \$244,000. The total cost of the Crown agency audits for 2009 was approximately \$173,000. We billed the pension plans a total of approximately \$95,000 for their 2009

audits; this is a combination of the time spent by our staff and the amount paid to the private sector accounting firm who we contracted with to do most of the work. The total cost of the four value-for-money audits included in our 2009 Report was \$268,000. The cost of preparing our 2009 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately \$108,000.

Peer review

5.34 Although not a formal performance indicator, an examination of our work by an independent, external reviewer is an important part of our commitment to sound management practices. Such an examination also helps to answer the question “who audits the auditor?” For a number of years, legislative audit offices across Canada have cooperated in a process of peer reviews, focusing on all aspects of our work. For example, the Office of the Auditor General of Alberta has examined our value-for-money audit practice, and staff from our Office has conducted a similar review of the Alberta practice.

5.35 During the year, we contracted with the Provincial Auditor of Saskatchewan to have his office conduct a peer review of our audit of the financial statements of the Province. The review was carried out in April 2010, and covered our audit of the Province of New Brunswick for the year ended March 31, 2009. The review was a comprehensive assessment of the quality and quantity of our audit work, using as a benchmark Canadian generally accepted auditing standards. The review produced a number of observations and recommendations that we are in the process of incorporating into our own policies and procedures. But, overall, we were pleased the reviewer concluded that we were complying with the generally accepted auditing standards of the Canadian Institute of Chartered Accountants. The opinion of the reviewer is reproduced below.

5.36 *I have carried out the post-audit issuance quality assurance review of the audit files of the above audit engagement. I carried out my work in accordance with the protocol of engagement for the inter-jurisdictional review signed on February 2, 2010.*

5.37 *The objective of this engagement is to conduct a post-audit issuance review of the above financial statement audit to issue a conclusion on compliance with Canadian generally accepted auditing standards. I used, as review criteria, the review tools approved by the Canadian Council of Legislative Auditors (CCOLA). CCOLA based these tools on CICA standards and on issues it deemed important. These review tools are the “Quality Assurance Guiding Principles”*

and the “Post-Audit Issuance Review Guides for Financial Statement Attest Audits.”

5.38 In my opinion, the audit engagement examined was carried out, in all significant respects, in accordance with Canadian generally accepted auditing standards.

Financial and human resources

Financial Results

5.39 Exhibit 5.5 shows the budget and actual expenditures for the Office for 2008-09 and 2009-10, together with the approved budget for 2010-11. Exhibit 5.6 breaks down the actual expenditures for 2008-09 and 2009-10 by type of activity, allocating overhead costs to each line of business.

Exhibit 5.5 Budget and actual expenditures (\$ 000s)

	2011		2010		2009	
	Budget	Budget	Actual	Budget	Actual	
Personal services	1,564.7	1,637.0	1,565.2	1,647.8	1,639.1	
Other services	200.1	180.3	412.5	239.5	984.3	
Materials and supplies	7.0	8.8	6.0	6.8	7.7	
Property and equipment	15.2	15.9	20.6	25.9	22.2	
Total	1,787.0	1,842.0	2,004.3	1,920.0	2,653.3	

5.40 In common with many other organizations in the New Brunswick public service, certain costs are budgeted and paid centrally, and are not included in our annual budget. The most significant of these are the annual lease costs for our office accommodations, and the employer portion of pension contributions (including CPP) for our staff.

Exhibit 5.6 Costs by activity (\$ 000s)

	2010 Actual	2009 Actual
Financial audit of the Province	485.5	502.1
Financial audits of Crown agencies	368.7	307.5
Value-for-money audits	919.7	1,115.0
Special investigation of the Caisse populaire de Shippagan	230.4	728.7
Total	2,004.3	2,653.3

5.41 During the 2007-08 year, we received and accepted a request from the Minister of Finance to carry out a special investigation into the sequence of events leading up to the government intervention in the

affairs of the Caisse populaire de Shippagan. To do this work, we hired the services of KPMG Forensic Inc. This special investigation was completed during the year ended March 31, 2010. Costs incurred during the 2009-10 year were \$230,400. This amount is included in Other services, which explains the excess of actual over budget of \$232,200. We obtained a Supplementary Estimate of \$200,000 in February, 2010 to authorize a portion of this overexpenditure.

5.42 Staff costs were underspent by \$71,800 for the year ended March 31, 2010. These savings were primarily the result of a maternity leave and delays in filling vacancies resulting from staff turnover.

5.43 Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative Assembly on the advice of the Board of Management. This audit is conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly. We are not totally comfortable with this arrangement. Although the Comptroller and her staff are extremely professional in their dealings with our Office, we would prefer to have the audit conducted by an auditor who is independent of government, and of the financial systems that we use.

Human resources

5.44 Our Office continues to provide experience and training to our employees. New entry-level employees must enroll in a professional accounting program, namely CA (Chartered Accountant), CGA (Certified General Accountant) or CMA (Certified Management Accountant). Before staff begin this exacting professional training they must have, as a minimum, one university degree at the bachelor level.

5.45 Our staff complement in 2009-2010, based on our available budget, was 21. Brent White, CA and Paul Jewett, CA are the directors for our two audit teams. At March 31, 2010 there were sixteen professional staff with accounting designations, and two students enrolled in accounting programs. Two other members of our staff provide administrative support services. One position was vacant, and has subsequently been filled. Exhibit 5.7 lists staff members at March 31, 2010.

Exhibit 5.7 - List of staff members

Shoaib Ansari, CA	Eric Hopper, CA	Jennifer Sherwood ²
Cathy Connors Kennedy, CA	Peggy Isnor, CA	Rebecca Stanley, CGA
Ashley Crabbe ²	Paul Jewett, CA	Al Thomas, CA
Caroline Doucet, CGA	Cecil Jones, CA	Yanjun Wang, CA
Kim Embleton, CGA	Teena Laagland ¹	Brent White, CA
Michael Ferguson, CA	Bill Phemister, CA	Tania Wood-Sussey, CA
Heather Gonnason ¹	Ken Robinson, CA	

(1) Administrative support

(2) Student enrolled in a professional accounting program

Looking forward

5.46 As we move forward, there are two major areas that we need to focus our attention on in the immediate future. They are:

- increasing our capacity to do value-for-money audits; and
- adapting to more rigorous auditing standards.

Increasing our capacity to do value-for-money audits

5.47 As noted earlier in this chapter, our resources have become increasingly stretched in recent years. Over the last twenty years, the number of full-time staff that we are able to maintain, given the restrictions in our budget, has reduced from 30 to 21. Over that twenty-year period, our Office budget has increased by 18%. Our annual increases, if any, have been limited to cost-of-living adjustments in salaries. In common with many other organizations connected to government, in some years, including the current fiscal year, our budget has been reduced. Yet because of promotions, and staff progressing through the steps in each pay band, individual salaries have increased by much more than the cost of living. As a point of comparison, the starting salary for a new student in our Office has increased by 46% over the last twenty years, and for an audit supervisor the increase has been 57%.

5.48 We have reacted to these budget pressures by looking for efficiencies in our work and, periodically, by reducing our staff complement. But we have reached the stage where our capacity to do the work we are legislated to do is being severely restricted. We now have only four staff members assigned to value-for-money audits on a full-time basis, assisted by other staff when available. The ongoing effect of the 5% budget cut we received for the 2009-10 year, and the further 3% cut in 2010-11 will likely cause a further reduction in our staff complement in 2011-12 to 20 people. This reduction will further restrict our value-for-money audit activities. It means that we will be

able to complete between three and five small to medium-sized audits each year. And we do not have the resources to tackle large or complex areas of government. This greatly reduces our effectiveness and influence as an Office, and our usefulness to the Legislative Assembly.

5.49 In order to have the flexibility to examine the most complex areas of government, we estimate that we need an increase in our budget of \$600,000. An increase of \$300,000 would allow us to look at more areas of moderate complexity. Our current funding level places us above only Prince Edward Island as we look at the resources available to legislative audit offices across the country. An increase in our budget of \$600,000 would not change that; we would still be about \$1,300,000 less than the Auditor General's Office in Newfoundland and Labrador, and about \$900,000 less than Nova Scotia. It should be noted that our position relative to Newfoundland and Labrador and Nova Scotia has deteriorated significantly in the past two years.

Adapting to more rigorous auditing standards

5.50 Canada is moving to adopt international auditing standards, beginning in 2010. This will require additional training for staff. One major change is a move to more risk-based auditing. This requires a greater knowledge of the business of the organization being audited, in order to identify the higher-risk areas. In a large, highly-decentralized organization like the Province, significant audit effort is needed to assess the risks inherent in the operations.

5.51 One particular new standard that we are now focusing our attention on relates to the audit of group financial statements. This standard deals with situations where the group auditor is not also the auditor of each organization in the group. It applies to our audit of the Province, because there are significant Crown agencies, such as the NB Power group and NB Liquor, audited by other auditors. The standard will require that we be much more involved in the audits of those Crown agencies, and we will need to devote more resources to this aspect of our work.