

REPORT OF THE AUDITOR GENERAL

To the House of Assembly



On the Business Plan

For the Year Ended
31 March 2012

Office of the Auditor General Newfoundland and Labrador



The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of their financial statements.

VISION

The Office of the Auditor General is a highly valued legislative audit office recognized for assisting Members of the House of Assembly in holding Government accountable for the prudent use and management of public resources.

Head Office Location

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Mount Pearl
Newfoundland and Labrador
Canada

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Regional Office Location

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Newfoundland and Labrador
Canada



Office of the Auditor General of Newfoundland and Labrador

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26 September 2012

The Honourable Ross Wiseman, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *Transparency and Accountability Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on the Business Plan of the Office of the Auditor General for the year ended 31 March 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Terry Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CA
Auditor General

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CHAPTER
1
INTRODUCTION

Introduction

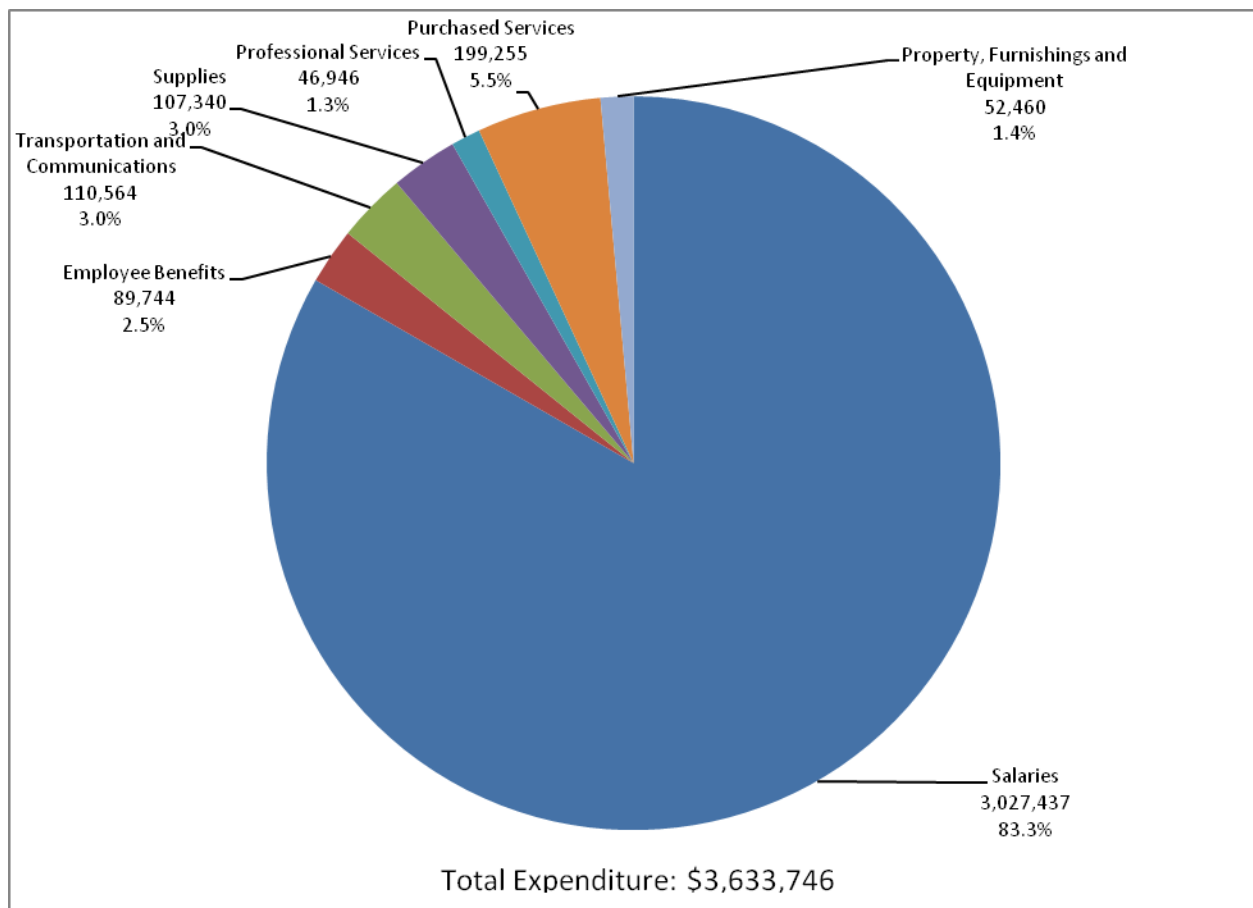
As an Officer of the House of Assembly, the Auditor General provides an independent, unbiased and informed opinion on matters that are considered to be significant to the Members of the House of Assembly. The Office is committed to promoting accountability and encouraging positive change in the stewardship, management and use of public resources.

This Report to the House of Assembly is for the year ended 31 March 2012, and is the first Report related to the Office's *Business Plan for the Three Fiscal Years 2011-12, 2012-13 and 2013-14*. That Plan was presented to the Speaker of the House of Assembly on 14 June 2011. This report is designed to provide all Members of the House of Assembly with a full overview of the operations of the Office during 2011-12: our plan, our budget and the results achieved. I was appointed Auditor General on 1 June 2012 and I am accountable for the actual results reported.

Figure 1 provides details on the \$3.634 million in gross expenditures (excluding statutory salaries of \$469,692) incurred by the Office for the year ended 31 March 2012.

Figure 1

Gross Expenditures of the Office of the Auditor General For the Fiscal Year Ended 31 March 2012



Introduction

Approximately 90% of the Office's gross expenditures relates to spending on salaries and office accommodations. The balance of expenditure relates to the normal functioning of the Office and includes staff training and professional development and travel.

The work of the Office is distributed along three broad categories, financial statement audits of the Province and Crown Agencies, Legislative Audits and Special Projects. Figure 2 provides the budgeted and actual hours by the type of work carried out during the year. No Special Projects were undertaken during 2011. The information is provided on a calendar year basis to coincide with our audit cycle.

Figure 2

Distribution of Audit Work For the Calendar Year Ended 31 December 2011

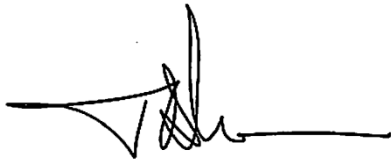
	BUDGET		ACTUAL	
	Hours	%	Hours	%
Financial Statement Audit of the Province	8,350	18.4	8,463	19.8
Financial Statement Audits of Crown Agencies	12,625	27.9	12,745	29.8
Legislative Audits	24,315	53.7	21,508	50.4
TOTAL	45,290	100.0	42,716	100.0

The following are highlights of our work during the past year:

- A report to the House of Assembly on *Reviews of Departments and Crown Agencies for the Year Ended 31 March 2011* was submitted to the Speaker of the House of Assembly and released publicly on 25 January 2012. That report included 14 separate items on projects undertaken by the Office during the year.
- The Office performed the financial statement audit of 26 Crown agencies. Issues identified during these audits were reported to management for their consideration. The Office also reviewed available financial statements and management letters for 38 Crown agencies which were audited by private sector auditors during the year.
- The Office completed the audit of the Public Accounts of the Province for the year ended 31 March 2011. A report to the House of Assembly on the *Audit of the Financial Statements of the Province of Newfoundland and Labrador* was submitted to the Speaker of the House of Assembly on 25 January 2012. That Report provided information on key indicators of the state of Government's finances and highlighted a number of specific areas including: the financial condition of the Province; sustainability of current and future Government programs; retirement benefits; and environmental liabilities.

Introduction

A professional team makes the work of the Office possible. I thank them for their dedication and continued commitment to high quality standards in their work. I also recognize John L. Noseworthy, CA, who retired as Auditor General effective 29 July 2011. John was Auditor General since April 2002 and guided the Office through a period of significant challenge. I also wish to thank Wayne R. Loveys, CMA for his leadership as Acting Auditor General from 1 August 2011 until his retirement on 31 May 2012. Their combined contribution to the Office and the Province has been considerable.

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CA
Auditor General

Introduction

CHAPTER
2
OVERVIEW OF THE
OFFICE OF THE AUDITOR GENERAL

Overview of the Office of the Auditor General

Following is an overview of the Office of the Auditor General:

2.1 Vision

The vision of the Office of the Auditor General is as follows:

The Office of the Auditor General is a highly valued legislative audit office recognized for assisting Members of the House of Assembly in holding Government accountable for the prudent use and management of public resources.

2.2 Mission

Our mission statement identifies the priority focus of the Office of the Auditor General over the next two three-year planning cycles. It represents strategic long-term results that the Office will be working towards.

The mission that will guide us for the period 2011-12 to 2016-17 is as follows:

By 2017, the Office of the Auditor General will have enhanced its provision of high quality audit services to the House of Assembly in order to, in compliance with its mandate, continue to provide information which will assist the House of Assembly in holding Government accountable for the stewardship, management, and use of public resources, while promoting accountability and encouraging positive change.

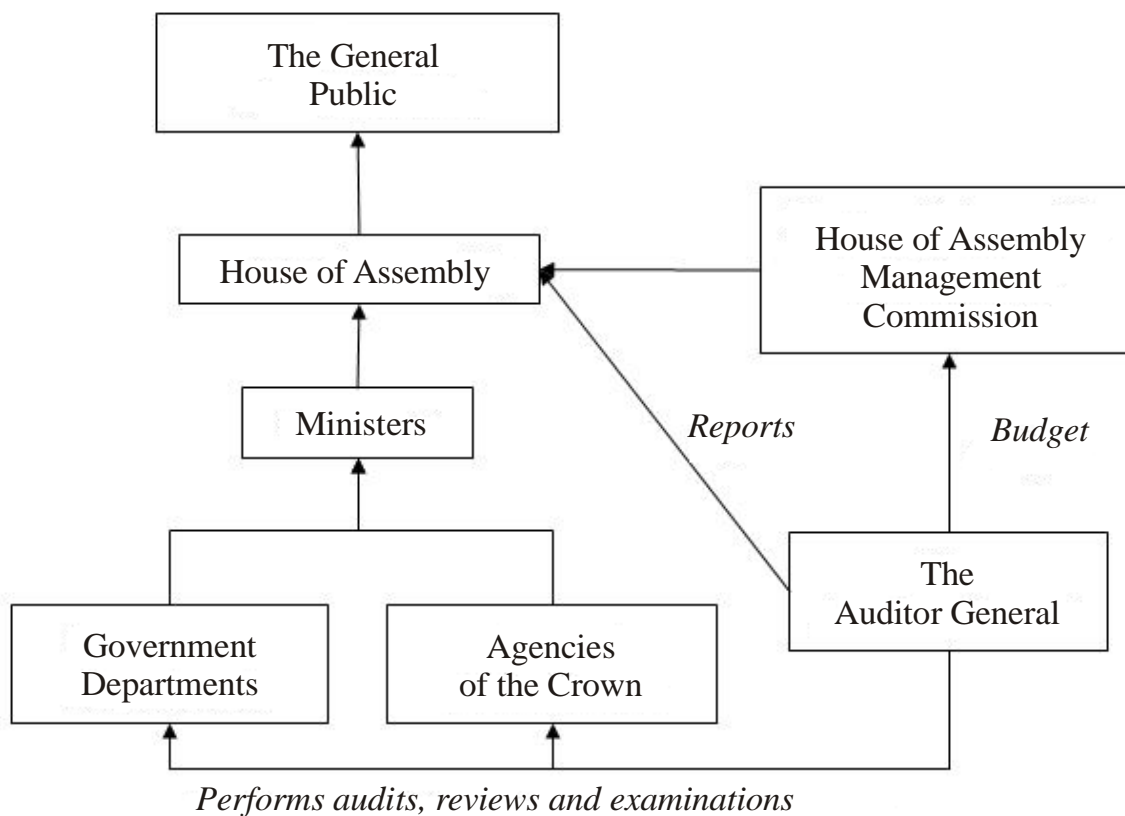
2.3 Accountability Relationship

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of these financial statements.

The Auditor General's fundamental role is to bring an independent audit and reporting process to bear upon the manner in which Government and its various entities discharge their responsibilities, report on their programs and their use of public resources. This role complements the accountability relationship which exists between Government, its departments, agencies of the Crown and the House of Assembly, as illustrated in Figure 1.

Overview of the Office of the Auditor General

Figure 1
Accountability Relationship



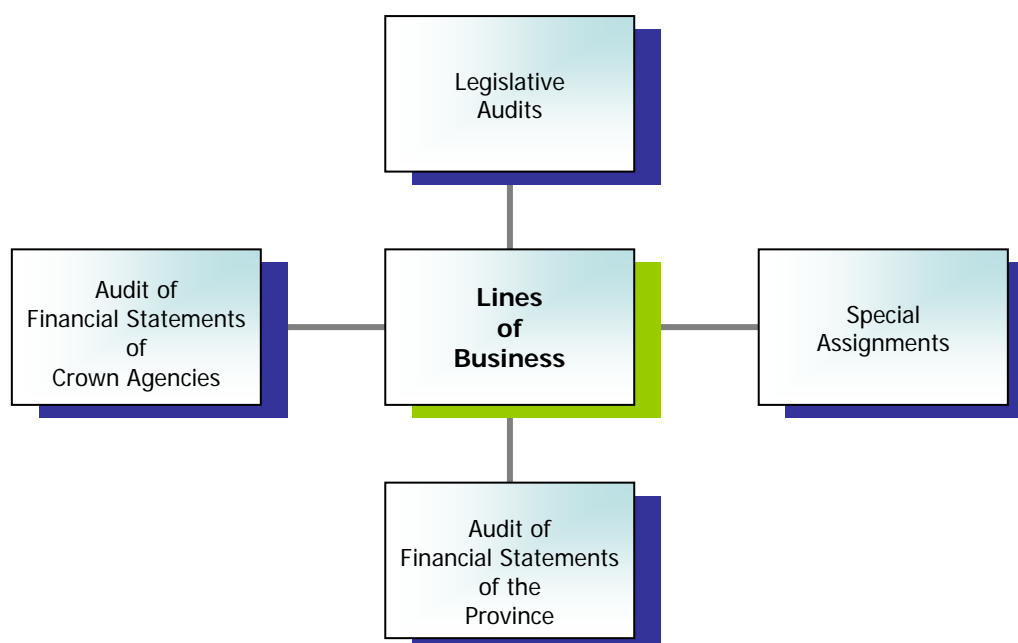
Overview of the Office of the Auditor General

2.4 Lines of Business

The Office of the Auditor General fulfils its mandate through the four key lines of business which are depicted in Figure 2.

Figure 2

Office of the Auditor General Lines of Business



- **Audit of Financial Statements of the Province and Crown Agencies**

A financial statement audit results in the expression of an opinion as to the fair presentation of the Public Accounts of the Province and the financial statements of Crown agencies. We conduct these audits in accordance with Canadian generally accepted auditing standards established by the Canadian Institute of Chartered Accountants. In addition, issues identified during a financial statement audit may lead to recommendations that are addressed in a letter to the auditee and/or included in the Auditor General's Annual Report to the House of Assembly.

Overview of the Office of the Auditor General

- Legislative Audits

Legislative audits provide the House of Assembly with an independent, professional assessment of public sector accountability, thereby facilitating informed judgments on the manner in which the public sector discharges its responsibilities. Legislative audits may include:

- evaluation of accountability relationships, management practices and control systems;
- determination of compliance with legislation and other authorities; and
- performance audits of program results compared to established criteria.

The findings of the legislative audits are reported in the Auditor General's Annual Report to the House of Assembly (entitled "Reviews of Departments and Crown Agencies") which is issued on or before the end of January of each year.

- Special Assignments

A special assignment is completed in response to a resolution by the House of Assembly or the Public Accounts Committee or a request from the Lieutenant-Governor in Council. The nature and scope of these assignments vary, depending on the nature of the request. They result in a report of findings to whomever makes the request and may include comments on such things as:

- accountability relationships, management practices and control systems;
- compliance with legislation and other authorities; and
- program results compared to established criteria.

2.5 Our Employees

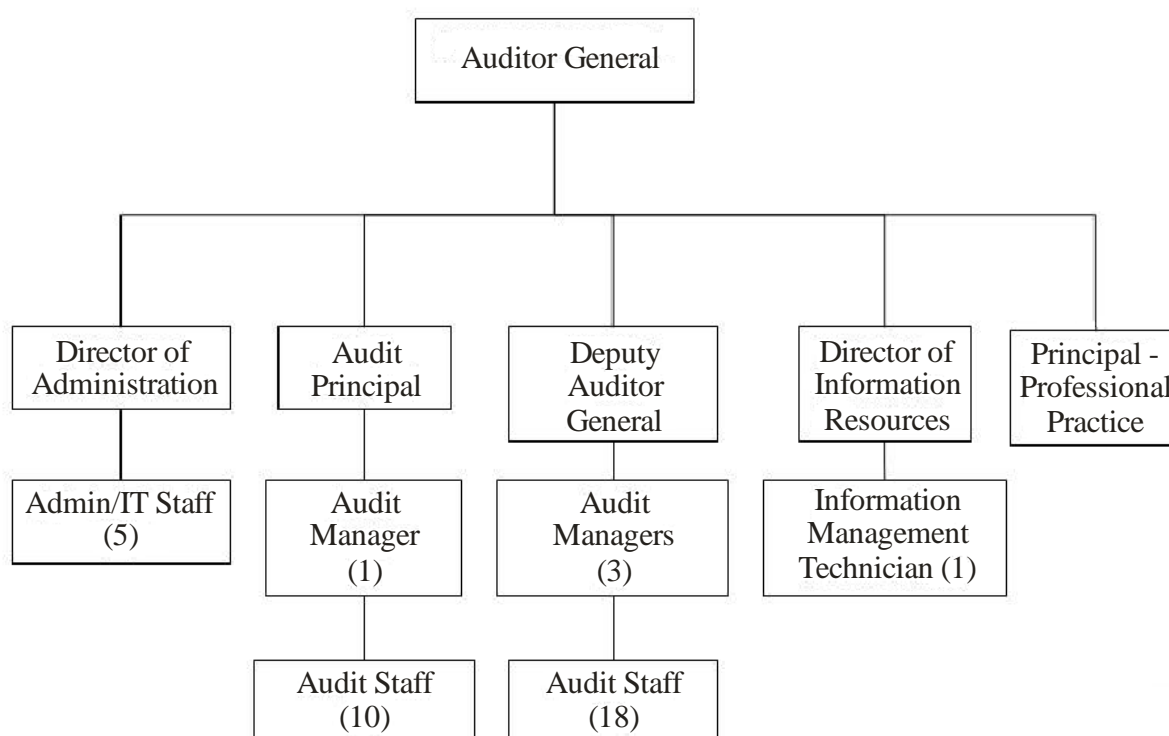
The Office is comprised of 44 positions. As of 31 March 2012, our Office had 39 employees, 33 in head office and 6 in the regional office in Corner Brook. Nine employees worked in administrative, information management and IT support, while the remaining 30 worked directly in audit. Of these 30 audit staff, 22 had professional accounting designations and 7 were in the process of completing their professional accounting program. Our Network Administrator has a Certified Network Administrator designation.

Figure 3 shows the organization structure of our Office.

Overview of the Office of the Auditor General

Figure 3

**Office of the Auditor General
Organization Structure
(44 positions)**



2.6 Involvement with the Profession

All legislative audit offices in Canada are members of the Canadian Council of Legislative Auditors (CCOLA) which serves to promote professional legislative auditing in Canada. This membership enables our employees to participate on various CCOLA committees established to address issues of common concern such as professional practice, legislative audits (value for money audits) or human resources.

We are pleased to note that our employees are actively involved in support of the various professional accounting bodies in which they hold membership. Jessica Bitsack marks Uniform Evaluations for the Canadian Institute of Chartered Accountants and David White is a member of the Board of Directors of the Certified General Accountants Association (CGA) of Newfoundland and Labrador.

During the year, Brad Sullivan and Stephanie LeBlanc completed their program of studies leading to designation as a Chartered Accountant. In addition, Scott Walters was awarded the FCA designation on becoming a Fellow of the Canadian Institute of Chartered Accountants.

Overview of the Office of the Auditor General

2.7 Revenues and Expenditures

The gross expenditure budget provided by the House of Assembly Management Commission and approved by the Legislature for the 2012 fiscal year totalled \$3,666,200. The actual gross expenditures of the Office totalled \$3,633,746, \$32,454 less than budget. Information on the approved budget and actual expenditures of the Office for the year ended 31 March 2012 is presented in Figure 4. The statutory amount represents the salary of the Auditor General plus amounts paid to the former Auditor General upon his retirement on 29 July 2011.

Figure 4

**Gross Expenditures of the Office of the Auditor General
Budget versus Actual
Fiscal year ending 31 March 2012**

	Budget	Actual	Variance
Salaries	\$ 3,046,000	\$ 3,027,437	\$ 18,563
Employee benefits	77,000	89,744	(12,744)
Transportation and communications	141,100	110,564	30,536
Supplies	113,600	107,340	6,260
Professional services	30,000	46,946	(16,946)
Purchased services	205,700	199,255	6,445
Property, furnishings and equipment	52,800	52,460	340
Total Gross Expenditures	3,666,200	3,633,746	32,454
Revenue	(222,700)	(286,216)	63,516
Total Net Expenditures	\$ 3,443,500	\$ 3,347,530	\$ 95,970
Statutory Amount	\$ 159,200	\$ 469,692	\$ (310,492)

Approximately 90% of the Office's gross expenditures relates to spending on salaries and office accommodations. The balance of expenditure relates to the normal functioning of the Office and includes staff training and professional development and travel.

In accordance with section 33 of the *Auditor General Act* (the *Act*), estimates for the Office of the Auditor General are approved by the House of Assembly Management Commission for inclusion in the Estimates of the Province. Section 32 of the *Act* requires that the accounts of the Office be audited annually by an independent public accountant appointed by the Commission. In addition, section 9(6) of the *Transparency and Accountability Act* requires that audited financial information be included in the Office's

Overview of the Office of the Auditor General

annual report. Grant Thornton audited the financial information of our Office and their report, along with the financial information for the Office for the year ended 31 March 2012 is included in Chapter 6.

2.8 Office Locations

The headquarters for the Office of the Auditor General is located in Mount Pearl. There is also a regional office located in Corner Brook.



Mount Pearl Office
15 Dundee Avenue



Corner Brook Office
1 Union Street

Overview of the Office of the Auditor General

2.9 Key Statistics

Following are some key statistics relating to the Office of the Auditor General as at 31 March 2012:

Description	Total			
	2012	2011	2010	2009
- Total number of staff	39	38	40	37
- Number of audit staff	30	30	33	31
- Number of administrative, information management and IT support staff	9	8	7	6
- Number of staff located in head office	33	32	35	32
- Number of staff located in regional office	6	6	5	5
- Number of male staff	23	24	24	23
- Number of female staff	16	14	16	14
- Total average age of all staff	38	43	42	43
- Average age of male staff	39	44	44	45
- Average age of female staff	37	40	41	39
- Total legislative auditing experience audit staff	341 years	421 years	438 years	405 years
- Total number of staff with professional accounting designations	22	23	24	21
- Total number of Chartered Accountants	14	15	16	12
- Total number of Certified Management Accountants	4	5	5	5
- Total number of Certified General Accountants	4	3	3	4
- Average number of professional development days	8	8	8	11

**CHAPTER
3
HIGHLIGHTS AND
ACCOMPLISHMENTS**

Highlights and Accomplishments

Following is a summary of key highlights and accomplishments for our Office during the fiscal year ending 31 March 2012:

3.1 Canadian Generally Accepted Accounting Principles

Revisions to Canadian Generally Accepted Accounting Principles became effective for fiscal years beginning on or after 1 January 2011. As a result of these revisions, many organizations had to adopt new accounting frameworks. This also applied to Government organizations, and for audits conducted by this Office most are transitioning to Canadian Public Sector Accounting Standards. During the year we assessed the impact of these changes on our clients, revised our procedures as necessary, and provided related training to our employees.

3.2 Electronic Working Papers

The Office has now completed its transition from paper to electronic working papers for our financial statement audits and our legislative audits. Caseware Working Papers software has been adopted for use on all audits completed by the Office.

3.3 Professional Development

As part of our efforts to continue providing meaningful professional development to our staff, and in recognition of the need for succession planning, a concentrated effort was made during the year to provide our management staff with opportunities for leadership and other human resource development.

3.4 Information Technology Virtualization

Protecting the integrity of our electronic audit files and ensuring the security and confidentiality of our data is paramount to this Office and the work we carry out. This year we have continued virtualization of our Office servers and moved our primary data file backup from a tape system to a disk system.

3.5 Information Technology Security Review

Last year an external consultant was engaged to perform a security review of our entire Information Technology environment. The emphasis was to identify and assess any vulnerabilities from the standpoint of the Office of the Auditor General as a standalone domain and within our shared applications with the Government of Newfoundland and Labrador. This year we have begun implementing the recommendations arising from this review.

Highlights and Accomplishments

3.6 Canadian Council of Legislative Auditors (CCOLA) Peer Review Process

Our Office participated in a CCOLA peer review process by having the audit files for a financial statement audit reviewed by an official of the Office of the Auditor General of Alberta. The review resulted in some positive feedback along with the identification of some opportunities for improvement.

3.7 Legislative Requirements Met

Our Office is accountable to the House of Assembly for its performance. In this section we provide a comparison of our performance against the goals established for the four lines of business - financial statement audits of the Province and Crown agencies, legislative audits and special assignments - outlined in the Business Plan for 2011-12 to 2013-14.

Performance Measures	Status 2011-12
1. Complete our audit of the financial statements of the Province within the time schedule agreed upon with the Office of the Comptroller General and complete all other financial statement audits within three months of their fiscal year-end.	<p>Our Auditor's Report on the Public Accounts for the year ended 31 March 2011 was dated 13 December 2011. The Public Accounts were released by Government on 6 January 2012. The original time schedule provided by the Office of the Comptroller General called for the Public Accounts to be tabled during the Fall of 2011. Delays in receipt of supporting documentation necessitated a delay in the completion of the audit.</p> <p>Of the 26 Crown agency financial statement audits that were performed during 2011, 12 were completed within three months of the fiscal year-end. Of the remaining 14, 1 could not be performed during 2011-12 as the agency was not ready for audit, 8 were delayed as the agencies did not provide supporting information for the audit in sufficient time for completion within three months of the fiscal year-end, and 5 were delayed as additional time was required to address internal resource issues.</p> <p><i>Note: Although comments in this Report relate to the fiscal year ended 31 March 2012, for the most part comments on our work relate to financial statements for the fiscal year ended 31 March 2011.</i></p>

Highlights and Accomplishments

Performance Measures	Status 2011-12
<p>2. Complete all audits (Crown agencies and financial statements of the Province) within budget for time and monitor actual time relative to budget. Our target for success is to be within a 10% variance of budget for time and cost.</p>	<p>Of the 26 Crown Agency financial statement audits that were performed during 2011, 14 audits were completed within 10% variance of budget for time and cost, 1 audit could not be performed during 2011-12 as the agency was not ready for audit, 3 audits were not completed within 10% variance of budget because of issues related to the client's lack of preparation, and 8 audits were not completed within 10% variance of budget because of new audit methodologies and new staff assignments.</p> <p><i>Note: Although comments in this Report relate to the fiscal year ended 31 March 2012, for the most part comments on our work relate to financial statements for the fiscal year ended 31 March 2011.</i></p>
<p>3. The Executive Committee will meet with Audit Managers on an annual basis to obtain an overview of their work. We will also have an annual meeting with all audit staff to identify possible projects.</p>	<p>The Executive Committee and Audit Management group met in March 2012 to review past work, discuss strategic human resource issues and plan for upcoming audits. All employees attended a consultation session in December 2011 to identify possible legislative audits for the coming year.</p>
<p>4. Monitor the degree to which our recommendations have been implemented or major issues have been addressed. Our target for success is that 80% of all recommendations be implemented within two years of our report date.</p>	<p>On 29 February 2012, we released the report <i>Update on Prior Years' Report Items</i> related to monitoring the implementation status of prior years' recommendations. We found that approximately 92.4% of all recommendations had been acted upon.</p>
<p>5. Provide the House of Assembly with our reviews of departments and monitoring of Crown agencies by 31 January of the year following the previous fiscal year-end.</p>	<p>Our 2011 Report to the House of Assembly on <i>Reviews of Departments and Crown Agencies</i> was provided to the Speaker on 25 January 2012, prior to the statutory deadline of 31 January.</p>
<p>6. Report on all special assignments conducted within the time period requested.</p>	<p>There were no special assignments to report on for the period 1 April 2011 to 31 March 2012.</p>
<p>7. Provide the House of Assembly with an accountability report on our Office by 30 September of each year.</p>	<p>Our Office presented its Report on our Business Plan to the Speaker of the House of Assembly on 16 November 2011. The later date was a result of the general election which occurred in October 2011.</p>

Highlights and Accomplishments

CHAPTER
4
PERFORMANCE

Performance

In 2011, a new Business Plan was developed which was designed to guide our Office for the fiscal years from 1 April 2011 to 31 March 2014. This section provides an update on the planned progress associated with each strategic issue from our Plan for the year 2011-12.

4.1 Update on Progress related to Strategic Issues, Goals and Objectives

4.1.1 Issue #1: Business Processes (Legislative Audit Projects)

Goal: By 31 March 2014, the Office of the Auditor General will have implemented and tested an updated identification and selection process for legislative audits.

Objective: By 31 March 2012, the Office of the Auditor General will have identified areas of improvement in its process for the identification and selection of legislative audits.

Measure: Identified Areas of Improvement in its Process for the Identification and Selection of Legislative Audits

Business Processes (Legislative Audit Projects)			
	Planned Performance for 2011-12	Actual Performance for 2011-12	Explanation of Variance (if applicable)
1	Reviewed and documented the current project identification and selection process	An Office working group was formed which reviewed and documented the current process including the current risk assessment process.	n/a
2	Identified gaps or areas for improvement	The working group identified areas for improvements specifically as it relates to risk measures associated with project selection. They found that while the measures appeared to be valid, there was limited guidance on how to evaluate them. Guidance was developed for determining the risk of each measure.	n/a

Performance

Objective: By 31 March 2013, the Office of the Auditor General will have updated and tested its process for the identification and selection of legislative audits.

Measure: Revised and tested process for identifying and selecting legislative audits

Indicators:

- Revised process for identifying and selecting legislative audits; and
- Testing of the revised process.

4.1.2 Issue #2: Human Resource Management

Goal: By 31 March 2014, the Office of the Auditor General will have improved succession planning by enhancing our professional development strategy which is designed to ensure that staff are adequately trained to fill key positions and maintain our ability to conduct audits.

Objective: By 31 March 2012, relevant professional development will have been made available to the staff of the Office of the Auditor General.

Measure: Professional Development Opportunities Made Available to Staff

Human Resource Management			
	Planned Performance for 2011-12	Actual Performance for 2011-12	Explanation of Variance (if applicable)
1	Enhanced mentoring and supervision skills through attendance of senior audit staff at human resource management training	Senior audit staff each attended various human resource management training seminars in 2011-2012, mainly through the Gardiner Centre, MUN.	n/a
2	Rotated audit staff through various types of audit	Transfers of both staff and audits occurred in January 2012 to allow for staff exposure to various audits.	n/a

Performance

Human Resource Management			
	Planned Performance for 2011-12	Actual Performance for 2011-12	Explanation of Variance (if applicable)
3	Assigned audit staff to the same file for a duration of five years or less	Transfers of both staff and audits occurred in January 2012 to ensure that the time individual staff was assigned to an audit was limited. Staffing and audit assignments are reviewed annually to ensure that audits are rotated at a minimum of every five year.	n/a
4	Established networks with legislative audit offices in other jurisdictions through staff attendance at meetings of the Canadian Council of Legislative Auditors (CCOLA)	Ten staff members were members of various CCOLA committees and groups during 2011-12 and as such participated in conference calls and attended CCOLA meetings at various locations.	n/a

Objective: By 31 March 2013, the Office of the Auditor General will have reviewed the Employee Development Program to incorporate additional succession planning considerations.

Measure: The Employee Development Program will be revised with additional succession planning considerations incorporated

Indicators:

- Enhanced mentoring and supervision skills through attendance of senior audit staff at human resource management training; and
- Revised Employee Development Program which includes specific training considerations to address succession planning.

Performance

4.1.3 Issue #3: Information Technology

Goal: By 31 March 2014, the Office of the Auditor General will strengthen controls related to the protection of the Office's audit working paper/data.

Objective: By 31 March 2012, the Office of the Auditor General will have enhanced the security measures in place and available for the protection of the Office's Audit Working Papers/data.

Measure: Enhanced the Security Measures in Place and Available to Protect the Office's Audit Working Papers/data

Information Technology			
	Planned Performance for 2011-12	Actual Performance for 2011-12	Explanation of Variance (if applicable)
1	Reviewed the Business Continuity Plan	The Office's Business Continuity Plan was reviewed and finalized by 31 March 2012.	n/a
2	Reviewed the IT Audit Toolkit	The Office reviewed the hardware requirements of audit staff and has provided audit staff with laptop computers that are able to effectively run the audit software suite the Office has adopted. The Office also reviewed the software requirements for audit staff and has adopted a standard suite of software that is provided to all audit staff. The Office reviewed and updated our working paper software to the latest version. The Office also updated the electronic audit programs that form the basis of our audit methodology.	n/a

Performance

Information Technology			
	Planned Performance for 2011-12	Actual Performance for 2011-12	Explanation of Variance (if applicable)
3	Evaluated the real-time auditing capacity of our working paper software	The Office conducted a pilot of a software method to improve the real-time auditing capacity of our working paper software. Based on our evaluation of the findings of the pilot program, the Office decided to implement the software method and provide all audit staff with the software and required training to use the software.	n/a
4	Identified components required to enable data replication of the central IT system at the St. John's Office on the server at the Corner Brook Office	The Office identified and acquired the components to enable data replication of the central IT system at the St. John's Office on the server at the Corner Brook office by 31 March 2012.	n/a

Objective: By 31 March 2013, the Office of the Auditor General will have documented the measures in place to enhance the protection of the Office's Audit Working Papers/Data.

Measure: Descriptions of the policies and procedures in place to enhance the protection of the Office's Audit Working Papers/Data

Indicators:

- Documented policies and procedures detailing measures in place to enhance the protection of the Office's Audit Working Papers/Data; and
- Pilot Caseware Working Papers Data Store Administration tool.

Performance

**CHAPTER
5
OPPORTUNITIES AND
CHALLENGES AHEAD**

Opportunities and Challenges Ahead

Following is a summary of opportunities and challenges anticipated for our Office during the fiscal year ending 31 March 2013 and beyond:

5.1 Amendments Required to the *Auditor General Act*

The former Auditor General had previously proposed changes to the *Auditor General Act* (the *Act*) which were designed to ensure the *Act* continued to meet the needs of the House of Assembly and was consistent with the mandate of a modern Auditor General's office. These proposed changes have not been acted upon.

Changes to the *Act* continue to be a priority for the Office.

5.2 Human Resource Management - Succession Planning

The demographics at the Office indicate that, within the next year, 4 of the 9 executive and senior management will be eligible to retire. This may leave a competency gap at the senior level in the Office. It is critical that the corporate memory of remaining staff be at a level that enables a smooth transition through this demographic shift.

5.3 Legislative Audit Projects

Conducting relevant legislative audit projects is a critical part of how the Office meets our mandate of promoting accountability and creating positive change in Government. To be effective in creating that positive change, legislative audits must be timely and relevant to the public and the House of Assembly. Twenty years ago, our Office developed a database called The Audit Universe Management System (TAUMS). TAUMS is a database of information relating to all departments and agencies of the Crown. It is used to support the assessment of risk levels of criteria related to a potential project. These risk levels are then evaluated when selecting legislative audit projects. The TAUMS system now needs to be reviewed and the software upgraded to ensure that it reflects today's needs.

5.4 New Accounting Standards

In 2011, Canadian Generally Accepted Accounting Principles (GAAP) changed significantly. Most Government entities are revising their financial reporting practices to comply with public sector accounting standards for fiscal years beginning on or after 1 January 2011. We have provided training to our staff and will work with the Crown agencies we audit to ensure full compliance with the new standards.

5.5 Advancing Technology

Data and email server management are constantly moving towards virtualization which minimizes the physical hardware required to operate a computer system. In the coming year the Office will continue its work towards the consolidation of IT resources in conjunction with the Office's Business Continuity Plan to ensure that we have adequate back-up and recovery procedures to protect our data and provide uninterrupted access to our system for auditors to conduct their work.

CHAPTER
6
FINANCIAL INFORMATION

Financial Information

This section includes the audited financial statements of the Office for the year ended 31 March 2012.



Financial Information

Office of the Auditor General

Province of Newfoundland and Labrador

March 31, 2012

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Independent auditors' report

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To the Members of the
House of Assembly Management Commission
Province of Newfoundland and Labrador

At the request of the Clerk of the House of Assembly, and in accordance with Section 32 of *The Auditor General Act*, we have audited the supplementary financial information of the Office of the Auditor General, Province of Newfoundland and Labrador as at March 31, 2012, the schedule of expenditures and related revenue and the schedule of gross expenditures and unexpended balances, for the year then ended.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of this financial information in accordance with the policies disclosed in Note 2, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on this financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information presents fairly, in all material respects, the financial position of the Office of the Auditor General, Province of Newfoundland and Labrador, as at March 31, 2012, and the results of its operations for the year then ended in accordance with policies disclosed in Note 2.

Other matters

This financial information, which has not been, and was not intended to be, prepared in accordance with Canadian generally accepted accounting principles, is solely for the information and use of the House of Assembly Management Commission to comply with the Act. This information is not intended to be used for any other purpose.

A handwritten signature in black ink that reads "Grant Thornton LLP".

St. John's, Newfoundland and Labrador

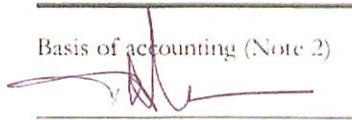
June 15, 2012

Chartered Accountants

Office of the Auditor General
 Province of Newfoundland and Labrador
 Supplementary Financial Information

Year Ended March 31	2012	2011
Assets		
Current		
Audit fees work in progress	\$ 82,945	\$ 113,025
Accountable advance	700	700
Prepays	<u>25,240</u>	<u>22,650</u>
	<u>\$ 108,885</u>	<u>\$ 136,375</u>
Liabilities		
Current		
Accrued paid/annual leave	\$ 907,439	\$ 1,250,573
Accrued payroll	31,613	20,446
Accrued overtime	18,096	6,122
Accrued severance pay	<u>531,232</u>	<u>652,463</u>
	<u>\$ 1,488,380</u>	<u>\$ 1,929,604</u>

Basis of accounting (Note 2)

 Auditor General

See accompanying notes to the financial information.

Office of the Auditor General Province of Newfoundland and Labrador Schedule of Expenditures and Related Revenue

Year Ended March 31	2012			2011
	Actual	Estimates		Actual
	Actual	Amended	Original	Actual
Executive Support				
Salaries	\$ 198,401	\$ 198,500	\$ 228,000	\$ 219,148
Salaries (statutory)	469,692	469,800	159,200	153,070
Employee benefits	3,247	3,300	5,000	4,358
Transportation and communications	14,798	15,000	27,000	16,467
Professional services	-	-	10,000	-
Purchased services	692	1,000	1,000	123
	<u>\$ 686,830</u>	<u>\$ 687,600</u>	<u>\$ 430,200</u>	<u>\$ 393,166</u>
Administrative Support				
Salaries	\$ 193,366	\$ 193,600	\$ 193,600	\$ 185,964
Employee benefits	8,476	8,500	8,500	3,067
Transportation and communications	28,354	29,800	41,600	27,091
Supplies		107,340	109,600	113,600
75,042				
Professional services	553	1,500	10,000	36,746
Purchased services	198,563	204,700	204,700	188,816
Property, furnishings and equipment	52,460	52,800	52,800	46,873
	<u>\$ 589,112</u>	<u>\$ 600,500</u>	<u>\$ 624,800</u>	<u>\$ 563,599</u>
Audit Operations				
Salaries	\$ 2,635,670	\$ 2,636,000	\$ 2,624,400	\$ 2,244,815
Employee benefits	78,021	79,000	63,500	47,392
Transportation and communications	67,412	70,000	72,500	60,797
Professional services	46,393	46,400	10,000	-
	2,827,496	2,831,400	2,770,400	2,353,004
Revenue – Provincial	(286,216)	(272,700)	(222,700)	(264,436)
	<u>\$ 2,541,280</u>	<u>\$ 2,558,700</u>	<u>\$ 2,547,700</u>	<u>\$ 2,088,568</u>
Net expenditures	<u>\$ 3,817,222</u>	<u>\$ 3,846,800</u>	<u>\$ 3,602,700</u>	<u>\$ 3,045,333</u>

Basis of accounting (Note 2)

See accompanying notes to the financial information.

Office of the Auditor General Province of Newfoundland and Labrador Schedule of Gross Expenditures and Unexpended Balances		
Year Ended March 31	2012	2011
Original estimates (net)	\$ 3,602,700	\$ 3,513,000
Add: revenue estimates net of statutory payments	<u>63,500</u>	<u>69,600</u>
Total appropriation	<u>3,666,200</u>	<u>3,582,600</u>
Total net expenditure	3,817,222	3,045,333
Add: (statutory payments in excess of revenue) revenue in excess of statutory payments	<u>(183,476)</u>	<u>111,366</u>
Total gross expenditure (budgetary, non-statutory)	<u>3,633,746</u>	<u>3,156,699</u>
Unexpended balance of appropriation	<u>\$ 32,454</u>	<u>\$ 425,901</u>

See accompanying notes to the financial information.

Office of the Auditor General Province of Newfoundland and Labrador

Notes to the Financial Information

March 31, 2012

1. Nature of operations

The *Auditor General Act* creates the Office of the Auditor General to assist in carrying out the duties prescribed. The *Act* appoints the Auditor General as the House of Assembly's independent legislative auditor of Government, its departments, agencies of the Crown, and Crown controlled corporations. The Auditor General reports to the House of Assembly, on significant matters which result from the examination of these entities.

2. Summary of significant accounting policies

This financial information has been prepared in accordance with the accounting policies set out below.

Basis of accounting

The Supplementary Financial Information is prepared on the accrual basis of accounting. The Schedule of Expenditures and Related Revenue and the Schedule of Gross Expenditures and Unexpended Balances are based on the modified cash basis.

Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland and Labrador. Direct liabilities and convertible assets such as amounts receivable are reported on the Supplementary Financial Information on an accrual basis.

Capital assets

Capital asset acquisitions are charged as budgetary expenditures and are expensed in the year of acquisition on the Schedule of Expenditures and Related Revenue. Capital assets are not reported on the Supplementary Financial Information but are reported in the Public Accounts of the Province of Newfoundland and Labrador.

Revenue recognition

Audit fee revenue is recorded on the modified cash basis as payment is received on the Schedule of Expenditures and Related Revenue. Audit fees work in progress on the Supplementary Financial Information are on the accrual basis of accounting.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2012

2. Summary of significant accounting policies (cont'd.)

Operating expenses

Expenses are recorded on the modified cash basis as payments are made on the Schedule of Expenditures and Related Revenue. Accrued leave, overtime, and payroll are recorded on the Supplementary Financial Information on the accrual basis of accounting.

Severance pay

Severance pay is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to be paid severance pay vests with employees upon nine years or more of service, and accordingly no provision has been made in the accounts for employees with less than nine years of continual service. The amount is payable when the employee ceases employment with the Province.

Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

3. Commitments

The Office is committed to annual rental payments for the next four years as follows: 2013 - \$169,841; 2014 - \$172,710; 2015 - \$100,935; and 2016 - \$29,160

4. Employee future benefits

Under the *Auditor General Act*, all persons employed in the Office of the Auditor General are employees for the purposes of the *Public Service Pensions Act, 1991*, and are entitled to all the benefits under that *Act*. No pension or other post employment future benefit expenditures have been recorded in this financial information.

Pension liability and group life and health insurance liability are recognized in the Public Accounts for all public servants. Pension expense and group life and health insurance expense for public servants are also reported in the Public Accounts under the Consolidated Fund Services. The Province matched the contributions of public servants and these expenses are recorded under the Consolidated Fund Services.

APPENDICES

APPENDIX
I
DEPARTMENTAL AUDITS PERFORMED
BY THE OFFICE OF THE AUDITOR GENERAL
AS AT 31 MARCH 2012

Departmental Audits Performed by the Office of the Auditor General

(as they were presented in the Province's Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for the year ended 31 March 2011)

General Government Sector

- Consolidated Fund Services
- Executive Council
- Finance
- Government Services
- Labrador and Aboriginal Affairs
- Public Service Commission
- Transportation and Works

Legislative Sector

- Legislature

Resource Sector

- Business
- Environment and Conservation
- Fisheries and Aquaculture
- Innovation, Trade and Rural Development
- Natural Resources
- Tourism, Culture and Recreation

Social Sector

- Child, Youth and Family Services
- Education
- Health and Community Services
- Human Resources, Labour and Employment
- Justice
- Municipal Affairs
- Newfoundland and Labrador Housing Corporation

Departmental Audits Performed by the Office of the Auditor General

APPENDIX

II

**AGENCIES OF THE CROWN WHOSE
FINANCIAL STATEMENT AUDITS WERE PERFORMED**

BY THE OFFICE OF THE AUDITOR GENERAL

AS AT 31 MARCH 2012

Agencies of the Crown Whose Financial Statement Audits Were Performed by the Office of the Auditor General

Department of Education

Private Training Corporation
Provincial Information and Library Resources Board
Student Loan Corporation of Newfoundland and Labrador

Department of Environment and Conservation

C.A. Pippy Park Commission
C.A. Pippy Park Golf Course Limited

Executive Council

Provincial Advisory Council on the Status of Women - Newfoundland and Labrador
Research & Development Corporation of Newfoundland and Labrador

Department of Finance

Newfoundland and Labrador Government Sinking Fund
Newfoundland and Labrador Industrial Development Corporation
Newfoundland and Labrador Municipal Financing Corporation
Newvest Realty Corporation
Province of Newfoundland and Labrador Pooled Pension Fund

Department of Government Services

Consumer Protection Fund for Prepaid Funeral Services
Public Accountants Licensing Board

Department of Innovation, Trade and Rural Development

Business Investment Corporation
Newfoundland and Labrador Immigrant Investor Fund Limited

Department of Justice

Director of Support Enforcement
Newfoundland and Labrador Legal Aid Commission
Office of the High Sheriff of Newfoundland and Labrador
Registrar of the Supreme Court of Newfoundland and Labrador

Department of Natural Resources

Livestock Owners Compensation Board
Newfoundland and Labrador Crop Insurance Agency

**Agencies of the Crown Whose Financial Statement Audits Were Performed
by the Office of the Auditor General**

Department of Tourism, Culture and Recreation

Heritage Foundation of Newfoundland and Labrador
Newfoundland and Labrador Arts Council
The Rooms Corporation of Newfoundland and Labrador Inc.

Department of Transportation and Works

Newfoundland and Labrador Housing Corporation (Reports through Minister)

**APPENDIX
III
AGENCIES OF THE CROWN WHOSE
FINANCIAL STATEMENT AUDITS WERE PERFORMED
BY PRIVATE SECTOR AUDITORS
AS AT 31 MARCH 2012**

Agencies of the Crown Whose Financial Statement Audits Were Performed by Private Sector Auditors

Department of Education

College of the North Atlantic
Memorial University of Newfoundland
Memorial University of Newfoundland - Pension Plan
School Boards:

Conseil scolaire francophone provincial de Terre Neuve et du Labrador
District #1 Labrador
District #2 Western
District #3 Nova Central
District #4 Eastern

Department of Environment and Conservation

Multi-Materials Stewardship Board
Multi-Materials Stewardship Board - Residential Backyard Composting Program
Multi-Materials Stewardship Board - Waste Management Trust Fund

Department of Finance

Newfoundland and Labrador Liquor Corporation

Department of Government Services

Credit Union Deposit Guarantee Corporation

Department of Health and Community Services

Newfoundland and Labrador Centre for Health Information
Public Health Laboratory
Regional Integrated Health Authorities:
Central
Eastern
Labrador - Grenfell
Western

Department of Human Resources, Labour and Employment

Workplace Health, Safety and Compensation Commission
of Newfoundland and Labrador

Agencies of the Crown Whose Financial Statement Audits Were Performed by Private Sector Auditors

Department of Innovation, Trade and Rural Development

Newfoundland Hardwoods Limited
Newfoundland Ocean Enterprises Limited

Department of Municipal Affairs

Municipal Assessment Agency Inc.

Department of Justice

Board of Commissioners of Public Utilities

Department of Natural Resources

Canada-Newfoundland and Labrador Offshore Petroleum Board
Chicken Farmers of Newfoundland and Labrador
Churchill Falls (Labrador) Corporation Limited
Dairy Farmers of Newfoundland and Labrador
Egg Producers of Newfoundland and Labrador
Gull Island Power Company Limited
Lower Churchill Development Corporation Limited
Nalcor Energy
Nalcor Energy - Bull Arm Fabrication Inc.
Nalcor Energy - Oil and Gas Inc.
Newfoundland and Labrador Hydro Electric Corporation
Twin Falls Power Corporation Limited

Department of Tourism, Culture and Recreation

Marble Mountain Development Corporation
Newfoundland and Labrador Film Development Corporation
Newfoundland and Labrador Sports Centre Inc.

APPENDIX

IV

**ANSWERS TO FREQUENTLY ASKED QUESTIONS
ABOUT THE OFFICE OF THE AUDITOR GENERAL**

Answers to Frequently Asked Questions About the Office of the Auditor General

What is the Auditor General's Role in Public Sector Accountability?

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments, agencies of the Crown and the House of Assembly.

How is Government Accountable to the House of Assembly?

The way Government spends public money is very important to Newfoundlanders and Labradorians.

Control of the public purse is carried out on behalf of the people by their elected representatives, the Members of the House of Assembly. While it is up to Government to draft budgets and spending estimates, Government cannot collect or spend taxpayers' money without the approval of the House of Assembly. After Government spends the money entrusted to it, there is an obligation to report back to the House of Assembly on how the money was used. This, the obligation to answer for actions taken, is the basis of the accountability relationship that exists between Government and the House of Assembly. As the governing body in this accountability relationship, the House of Assembly is responsible for:

- overseeing the activities of Government; and
- holding Government accountable for its handling of public money.

To assist this process, the Government provides information about how it used the public funds entrusted to it.

But what assurances do Members of the House of Assembly have that this information is appropriate, credible and complete? How can Members know that the information they receive accurately reflects the results of the activities of Government?

What is the role of Legislative Auditors?

The House of Assembly in this Province, as in Legislative Assemblies in other jurisdictions in Canada, uses the services of an Auditor General to assist it in carrying out its oversight responsibilities. Historically, the Assemblies have understood well the need for an independent Legislative Auditor and recognized the position's unique contributions to the public accountability process.

Answers to Frequently Asked Questions About the Office of the Auditor General

From the view of legislators, the value of Legislative Auditors has not simply been in their technical expertise, it has also been in their ability to conduct audits that may not please those being examined, and to report their findings publicly. This has made their roles indispensable. They have subjected the operations of the public sector as a whole to regular, independent examinations, acting first and foremost in the public interest, as acknowledged champions of open and transparent government.

Defining the unique and vital role of Legislative Auditors in the public accountability process revolves around four key points:

- their independence;
- their mandate;
- their reporting obligations; and
- their expertise in public sector matters.

As a result of working exclusively in the public sector, Legislative Auditors have acquired extensive corporate and operational knowledge of Government. They are specialists in the field of public sector auditing and their credibility with legislators (for example, on topics such as emerging public sector trends and accountability issues) is thus well established. Given their extensive interaction with legislators, Legislative Auditors are in the notable position of being aware of, and understanding legislators' concerns.

Furthermore, having a whole-of-Government mandate has allowed Legislative Auditors to speak to legislators about broad Government matters and to better identify those accountability and performance issues that have the greatest impact on Government. As a consequence, Legislative Auditors are better able to promote consistency of accounting across government organizations, and to make informed decisions about the selection, conduct and reporting of audits.

Why is Independence the Cornerstone of Legislative Auditing?

Independence, the state of being impartial and free from bias and conflicts of interest, is the cornerstone of legislative auditing. Anything that impedes an honest, straightforward and sincere approach to the performance of an audit will reduce public confidence.

In Canada, Legislative Auditors enjoy the confidence of legislators and the public, and their independence is unquestioned. The fact that this independence is largely backed by legislation instills public confidence in the process. For instance, were a legislative audit to reveal significant matters critical to government, those matters would, by law, have to be made known to legislators and the public.

The legislation under which the Office of the Auditor General in Newfoundland and Labrador operates is the *Auditor General Act*. This legislation was assented to on 31 October 1991.

Answers to Frequently Asked Questions About the Office of the Auditor General

What is Professional Independence?

To be independent in appearance as well as in fact, Legislative Auditors have been granted the freedom to act without undue direction or interference from government.

In practice, and subject to legislation and professional standards, this means that Legislative Auditors are able to determine when and how audits will be conducted and who will conduct them. It is they, for the most part, who have the license to set the audit program for their jurisdictions, choosing the bodies to be audited and determining the nature and scope of audits to be conducted.

From a public accountability perspective, this degree of independence is crucial. Only in this way can there be assurance that all matters of importance are subject to thorough examination, no matter how the results might reflect on those being audited.

What is Personal Independence?

Bolstering the independence of Legislative Auditors even further, legislators, not Government, generally make decisions pertaining to the auditors' appointment, tenure, reappointment, remuneration and resources. Such decisions are overseen and approved by each Legislative Assembly as a whole.

In this Province, the House of Assembly has assured this independence by appointing the Auditor General for a 10 year non-renewable term as an Officer of the House of Assembly, with removal permitted only for cause or incapacity. As well, the *Auditor General Act* provides the Auditor General with immunity from legal action.

How do Legislative Auditors differ from Other Audit Professionals?

Being an Officer of the House of Assembly means being, above all, responsive to the Assembly's interests and wishes. This position as the Assemblies' Officer, combined with the responsibility to audit the whole of Government, is what sets Legislative Auditors apart from other audit professionals working in the public sector.

Answers to Frequently Asked Questions About the Office of the Auditor General

What is meant by “whole-of government” mandate?

The Auditor General is the only official channel through which the House of Assembly is regularly and consistently kept informed of Government's stewardship of public funds.

The House of Assembly has granted the Auditor General a “whole-of government” mandate, covering organizations as diverse as Government departments, agencies, commissions, boards and Crown corporations. In this way, the House of Assembly is assured of receiving the Auditor General's conclusions and recommendations for the entire Government entity, regardless of whether or not the executive branch of Government has hired a private sector auditor to audit a specific organization or program of Government.

What is the Breadth of Audit Coverage?

Legislative Auditors in Canada meet their auditing objectives by examining a very broad range of issues. These issues are not necessarily the same ones encountered in the private sector, mainly because of the basic differences between organizations in the private sector and those in government. For example, because government organizations have public policy objectives, the results of their operations cannot be assessed based solely on their financial statements.

Recognizing this distinction, Legislative Assemblies have broadened the scope of the work that Legislative Auditors may do to obtain the information they need to hold government accountable. This information focuses on the financial, operational and compliance with authorities performance of government organizations.

To whom does the Auditor General Report?

As an independent Officer, the Auditor General reports directly to the House of Assembly, at least annually, on anything the Auditor General feels should be brought to the Members' attention. The reports become a matter of public record and cover a wide range of issues of interest to legislators and the public, including compliance, evaluation of accountability relationships, management practices and control systems, and review of program results compared to established criteria. Having one auditor reporting to the House of Assembly is an efficient and effective means of ensuring that Members receive the information they need to hold Government accountable. The Auditor General also has direct access to the Public Accounts Committee. This provides a formal means of discussing reported audit findings with Members.

Answers to Frequently Asked Questions About the Office of the Auditor General

To whom are the Legislative Auditors Accountable?

Questions are raised from time to time about what the appropriate involvement and role of a Legislative Auditor should be and to whom Legislative Auditors are accountable?

The fact is, Legislative Auditors fulfil a distinctive position in the accountability regime of governments. They have been able to serve the accountability relationship between government and the Legislative Assembly because they have sufficient independence from government to be credible, they have mandates that are set out in legislation, and they have the forums to report directly to their Assembly. Moreover, they have acquired the necessary expertise to carry out their role effectively.

Such independence as that bestowed on Legislative Auditors requires that they themselves be accountable to their respective Legislative Assemblies. This means that Legislative Auditors are obligated to report directly to the Assembly on how they carry out their responsibilities and how the services they are providing add value to the accountability process.

The resources available to the Auditor General are determined through discussion with the House of Assembly Management Commission. This Commission is a Committee of the House of Assembly, over which the Speaker of the House presides, and is responsible for all matters of financial and administrative policy affecting the House of Assembly, its offices (including the Office of the Auditor General) and its staff. The *Auditor General Act* requires that estimates of the sums required to be provided by the Legislature for the payment of salaries and other expenses of the Office of the Auditor General be submitted to the Commission for its approval. As well, each year, the financial statements for the Office are to be audited by an auditor appointed by the Commission, with the audited statements being tabled in the House of Assembly.

Who Audits the Auditor General?

Each year, the financial statements for the Office are to be audited by an auditor appointed by the House of Assembly Management Commission, with the audited statements being tabled in the House of Assembly.

As well, the Public Service Commission, the Government Purchasing Agency and the Office of the Comptroller General have the authority to and regularly review related aspects of the Office's operations.

Furthermore, a sample of our audit files are periodically reviewed by a representative of another Canadian Legislative audit office to ensure that our files comply with Canadian generally accepted auditing standards.

Answers to Frequently Asked Questions About the Office of the Auditor General
