

# Chapter 5

## Office of the Auditor General

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# Office of the Auditor General

## **Accountability Statement**

**5.1** This chapter of my Report reflects the performance of my Office for the year ended March 31, 2011. It was prepared under my direction. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

**5.2** 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.

**5.3** 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.

**5.4** 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**

**5.5** Our mission is:

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

**5.6** 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.

**5.7** Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out her 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 her 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.

**5.8** 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 audit and VFM project 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 her Office, the Auditor General received all the information and explanations she 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 wilfully 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**

**5.9** 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.

**5.10** 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.

***Independence  
Could be Enhanced***

**5.11** 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 her 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. We have commenced a process to update the Act for these and other greatly needed changes.

***Capacity is  
Restricted by  
Budget Limitations***

**5.12** 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 contracting some audits. Despite the reduction in staffing, we have a small group 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.

**5.13** 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 need. In addition, we are now auditing more entities including new Crown agencies and federal claims formerly audited by the Office of the Comptroller.

**5.14** The combination of these factors is having a long term 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. We expect the review of Legislative Officers will assist in highlighting these current challenges.

## **Linking Goals and Performance**

**5.15** 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

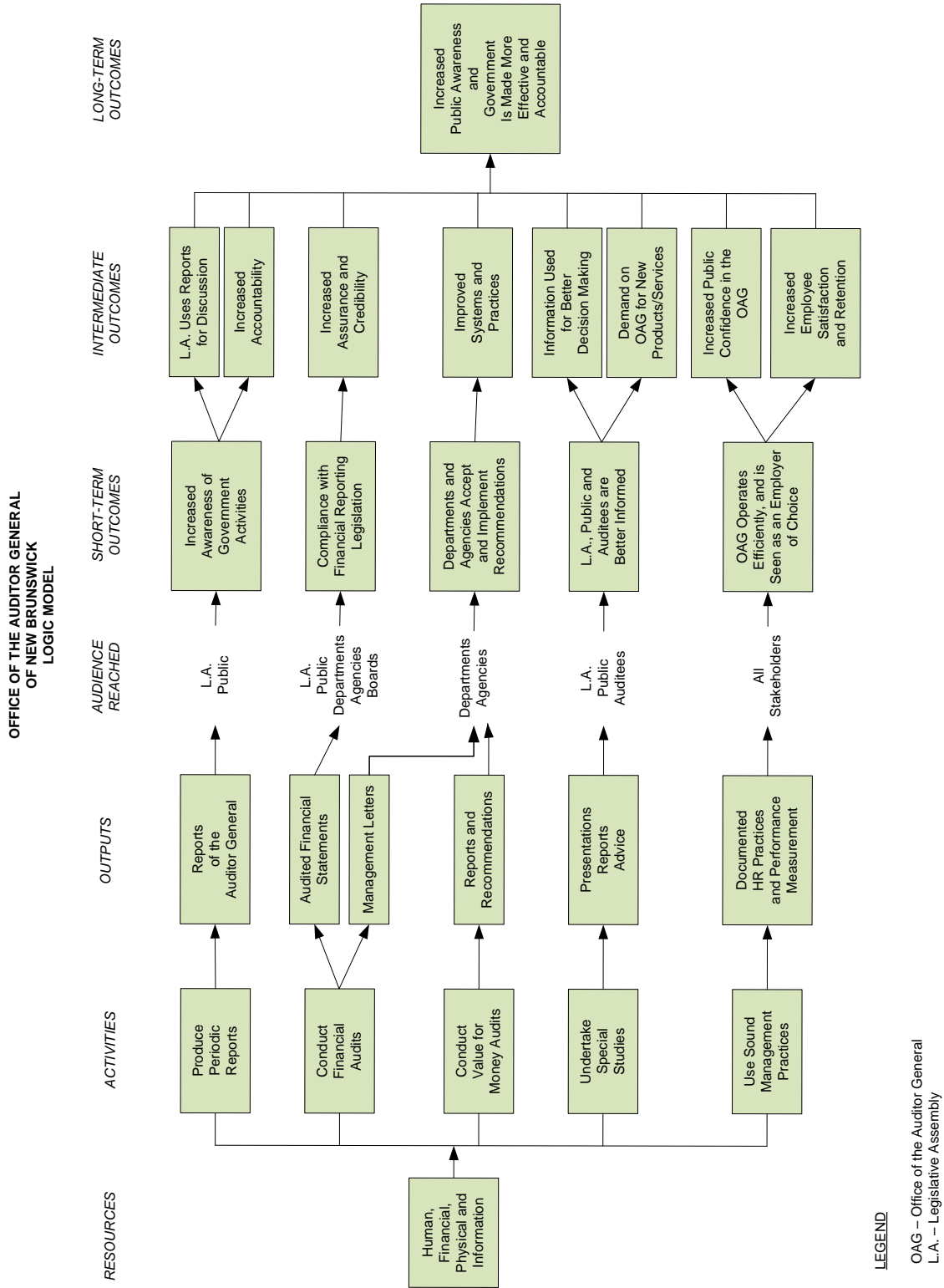


Exhibit 5.3 – Measurement framework

Goals	Activities	Outcomes		Measuring our Performance (Indicators)
		Short Term	Intermediate	
<p>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.</p>	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 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 Dem and on our office for new products/services	MLA perception, as determined by survey Auditee perception, as determined by survey
	Conduct financial and VFM audits	Departments and agencies accept and implement recommendations	Improved systems and practices	Percentage of recommendations accepted Percentage of recommendations implemented
<p>In carrying out our work we will use sound management practices.</p>	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)
<p>We will provide an attractive work environment that allows opportunities for professional growth.</p>	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

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

**5.17** 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*

**5.18** 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.

**5.19** 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. We will perform an MLA survey in 2012.

### *Auditee Survey*

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

**5.21** 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. We intend to perform auditee surveys in 2012.

***Acceptance and Implementation of Recommendations***

**5.22** We generally assess these two indicators together. Chapter 5 of Volume 3 of our 2011 Report provides an overview of the recommendations included in our 2007 through 2009 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2007 that have not been fully implemented.

**5.23** We contacted all departments and agencies to obtain their assessment of the status of these recommendations. We met with staff at the Department of Justice to obtain additional information on their work to implement the recommendations from the audits of New Brunswick Credit Union Deposit Insurance Corporation (2007), the Superintendent of Credit Unions (2008) and La Caisse populaire de Shippagan (2009).

**5.24** Our work in 2011 showed that departments and agencies had fully implemented about 60% of our recommendations from 2007, 2008 and 2009. However, less than half (45%) of our recommendations from 2007 had been fully implemented within the four years. We do not find these results acceptable.

***Employee Survey***

**5.25** 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.

**5.26** 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. We intend to conduct an employee satisfaction survey in 2012.

***Completion of Audits on Time and Within Budget***

**5.27** Our goal was to complete the audit of the Province's 31 March 2011 financial statements by August 12, and to complete all Crown agency audits by September 30.

**5.28** 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.

**5.29** The audit of the Province for the year ended 31 March 2011 was completed by 12 August 2011. Our auditor's report on the Province's financial statements was dated 12 August 2011. 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 2011 they were issued on August 16.

**5.30** During fiscal 2011, we were the auditors of eighteen Crown agencies and seven federal claims audits. We completed nine of the Crown agency audits by 30 September 2011. Our work is expected to grow as more Departments are requesting our office to audit recently created Crown agencies and various claims submitted in connection with federal funding programs.

**5.31** 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.

**5.32** The time spent on our 2011 audit of the Province's financial statements was above the time spent in the prior year, due to the adoption of new Canadian auditing standards, and other accounting and reporting considerations. 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.

**5.33** Eight of our Crown agency audits experienced significant delays in completion. 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, and sometimes caused by delays in the Crown agency producing financial statements for audit. In some cases the delay was due to a shortage of staff in our Office to perform the work required.

**5.34** We completed four value-for-money projects, three of which were included in our 2011 annual report, Volume 3. The other project was published in October 2011 in Volume 1 of our 2011 annual report. Three projects took significantly more time than we had anticipated, due in part to extra time needed as the findings were discussed and the report finalized.

**Use of Time**

**5.35** 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, an average of 64 % of our time is spent directly on financial statement audits or value-for-money audits. For the fiscal year ended 31 March 2011, 34% of this time was spent on value-for-money projects, compared to 42% in 2010 and 48% in 2009.

*Exhibit 5.4 Allocation of paid working hours*

	2011	2010	2009
Financial and value-for-money audits	63%	64%	65%
Professional development and training	7%	9%	8%
Support activities	30%	27%	27%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**5.36** 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.

**5.37** 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, management administration and general office duties.

**Cost of our Audits**

**5.38** 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.

**5.39** The cost of the office's financial audit activity in fiscal 2011 regarding the audit of the Province's financial statements was \$272,000. The total cost in fiscal 2011 of the Crown agency audits was approximately \$190,000. The total cost of the value-for-money projects in the fiscal year ended 31 March 2011 was

\$240,000. The cost in fiscal 2011 of preparing our Report, including the work we do to follow up on recommendations made in previous Reports, was approximately \$76,000.

### **Peer Review**

**5.40** 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.

**5.41** During 2010, we contracted with the Office of the Provincial Auditor of Saskatchewan to conduct a peer review of our audit of the financial statements of the Province of New Brunswick. The review was carried out in April 2010, and covered our audit of the Province of New Brunswick for the year ended 31 March 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. 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 review produced a number of observations and recommendations that we began incorporating in planning the 31 March 2011 financial audit of the Province.

### **Financial and Human Resources** *Financial Results*

**5.42** Exhibit 5.5 shows the budget and actual expenditures for the Office for 2009-10 and 2010-11, together with the approved budget for 2011-12.

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

	2012		2011		2010	
	Budget	Budget	Actual	Budget	Actual	
Personnel services	1,595.3	1,564.7	1,498.7	1,637.0	1,565.2	
Other services	227.5	200.1	263.6	180.3	412.5	
Materials and supplies	7.0	7.0	5.8	8.8	6.0	
Property and equipment	15.2	15.2	5.1	15.9	20.6	
<b>Total</b>	<b>1,845.0</b>	<b>1,787.0</b>	<b>1,773.2</b>	<b>1,842.0</b>	<b>2,004.3</b>	

**5.43** 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.

**5.44** During the 2010-11 year, we retained the services of a recruitment firm to assist in finding a replacement for the retiring Deputy Auditor General. This one-time cost is reflected in “other services” for fiscal 2011.

**5.45** Personnel services were under spent by \$66,000 for the year ended 31 March 2011. These savings were primarily the result of a maternity leave and delays in filling vacancies resulting from staff turnover.

**5.46** 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. For the fiscal year ended 31 March 2011, as in prior years, this audit has been conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly. In 2011-12 we believe an agreement will be reached to proceed with a process to contract out the audit of our Office’s accounts. This will enhance independence in our relationship with the Office of the Comptroller.

#### ***Human Resources***

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

**5.48** Our staff complement in 2010-2011, based on our available budget, was 21. Brent White, CA and Paul Jewett, CA served as directors for our two audit teams. At 31 March 2011 there were fifteen professional staff with accounting designations, and three students enrolled in accounting programs. Two other members of our staff provide administrative support services. One position was vacant, which has subsequently been filled. Exhibit 5.6 lists staff members at 31 March 2011.

Exhibit 5.6 List of staff members at 31 March 2011

Émilie Chiasson <sup>2</sup>	Cecil Jones, CA	Rebecca Stanley, CGA
Cathy Connors Kennedy, CA	Teena Laagland <sup>1</sup>	Al Thomas, CA
Ashley Crabbe, CGA	Kim MacPherson, CA	Yanjun Wang, CA
Kim Embleton, CGA	Chris Mitchell <sup>2</sup>	Heather Webb <sup>1</sup>
Eric Hopper, CA	Caroline Paquin, CGA	Brent White, CA
Peggy Isnor, CA	Ken Robinson, CA	Tania Wood-Sussey, CA
Paul Jewett, CA	Jennifer Sherwood <sup>2</sup>	

(1) Administrative support

(2) Student enrolled in a professional accounting program

## Looking Forward

### *Increasing our Capacity to do Value-for-Money Audits*

**5.49** 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.

**5.50** 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, annual increases, if any, have been limited to cost-of-living salary adjustments. In common with many other organizations connected to government, in fiscal 2011, our budget was 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 40% over the last twenty years, and for an audit supervisor the increase has been 50%.

**5.51** 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 severely restricted. We now have only five staff members assigned to value-for-money audits on a full-time basis, assisted by other staff when available. In recent past, we received a 5% budget cut for the 2009-10 year, and a further 3% cut in 2010-11. This reduction further restricted our value-for-money audit activities. It means that we will be able to complete between three and four small to medium-sized audits each year. We do not currently 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. We note that while we are gratified to have received a modest \$58,000 budget increase in 2011-12, it is



clearly not enough to reverse the effects of prior year funding cuts and the corresponding operational cuts our office has sustained over time.

**5.52** 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 then still be about \$1,400,000 less than the Auditor General's Office in Newfoundland and Labrador, and about \$1,100,000 less than Nova Scotia. It should be noted that our position relative to Newfoundland and Labrador and Nova Scotia has deteriorated significantly in recent years.

***Adapting to More  
Rigorous Auditing  
Standards***

**5.53** Auditing standards have changed significantly in the last year as Canada has adopted international auditing standards. This requires additional ongoing training for staff to stay current on recent updates and changes. 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 relevant risks.

**5.54** One particular standard that we continue to focus 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 requires that we be much more involved in the audits of those Crown agencies, and accordingly we continue to devote more resources to this aspect of our work.