

**Developments in Canada and their Impact on Legislative Auditors**  
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I am extremely pleased to be here in Barcelona to learn about what is happening on the International scene and to share with you what is happening in Canada. My hope is that through my presentation here this morning there may be something of value for you and your audit practice. I am going to cover a lot of different topics in the next twenty minutes so I will start by giving you a road map as to where I am going.

I first want to make sure you have an understanding of the political structure of Canada and the role of legislative auditing in my country. Then I will spend some time talking about the financial audit of the public accounts in Canada and share with you a few major developments will change how we report our financial results. The third topic will be on value for money or performance audits and how we are using our mandates to do a variety of things. I will close by talking about how the Legislative Auditors in Canada are encouraging governments to publicly report on their goals and objectives and to be accountable for actual performance. We call this Performance Reporting.

Time does not permit me to examine each of these topics in detail. So I provided you with a handout that gives the Web Addresses to a number of the organizations that can provide more detailed information. I have given you the English address, but you will find that a number of the sites are also available in French.

### **The Legislative Audit Environment in Canada**

Canada consists of 10 provinces which are responsible for services such as Health and Education and a Federal Government which is responsible for national programs like defense and immigration. Each of the ten provinces and the Federal Government has an Auditor General. New Brunswick is one of the ten provinces and I am the Auditor General of New Brunswick.

Each Auditor General is independent of government and in every jurisdiction this independence is established and protected by Legislation. In my own situation, I have been appointed for an eight year term and I can only be removed from my office on a two-thirds vote of the Legislative Assembly. Under my legislation I am required to audit the financial statements of my province and express an opinion on whether or not they can be relied upon. The legislation also permits me to review the operations of government and issue reports on performance or value for money issues. It is this work

that receives all the attention, especially from the media and opposition parties. The Auditor General legislation in the provinces and the Federal Government is quite similar.

We all report to a Committee of the Legislative Assembly called the Public Accounts Committee. These Committees have members from all elected parties and are chaired by a member of the opposition party. We appear before these committees and present our performance and value for money audit reports. The committee uses our work as one method of holding departments and Crown Corporation accountable. In Canada a Crown Corporation is company that is owned by the government.

In Canada each legislative audit office is a member of the Canadian Council of Legislative Auditors. The Canadian Council of Legislative Auditors is an organization devoted to sharing information and supporting the continued development of auditing methodology, practices and professional development.

The Council meets at least twice a year to discuss areas of mutual interest. The Council also creates groups to review areas of particular interest to the members. For instance we are currently looking at how we can harmonize our financial audit methodologies, how we can share Information Technology audit methods and how we can develop an approach to review governance practices in Crown Corporations or agencies. The Canadian Council of Legislative Auditors is a member of EURORAI. I am the current chairman of the Council, that is why I am attending this conference.

We have our own Web Site and the address is included in the handout which I have provided. One of the features of our web site is the link to all eleven Legislative Audit Offices in Canada. And within each legislative audit office web site you can find our published reports for at least the last 5 years.

We encourage our governments and their departments to be accountable and to report on their performance. We too must be accountable. We must lead by example and as a result we have decided to report on a number of performance indicators for our offices such as:

1. The total cost of each completed audit,
2. The percentage of staff time spent on various activities such as auditing, and training,
3. The extent to which our recommendations are implemented and
4. The results of surveys from our employees, and legislators.

We see leading by example as being extremely important. We should not be critical of others if we are not following best practises ourselves.

### **Developments that have impacted the audit of Public Accounts**

In Canada the term Public Accounts means the financial statements that report government assets, liabilities, revenues and expenses. Each legislative auditor has the legislated mandate to audit the Public Accounts. In the past couple of years there have been some developments that I would like to share with you. Some are related to the

accounting and reporting of the Public Accounts and some are related to auditing. Let me start by talking about the changes in accounting and reporting.

### *Accounting and Reporting Developments*

A little over 20 years ago there were no generally accepted accounting principles in Canada for the Public Sector. Each government decided how they would present their financial results. As sovereign governments they held the view that they should set their own accounting policies. The auditor's role was to express an opinion on whether or not the financial statements were presented in accordance with the governments' own accounting policies. A lot has changed in 20 years.

In Canada we now have the Public Sector Accounting Board which sets accounting and reporting standards for the public sector. These standards are now being followed by the provinces and the federal government. Local governments (cities and towns) are beginning to follow the Board's recommendations. There is a comprehensive handbook which sets out the conceptual framework and various accounting and reporting standards. These standards are not legislated but exist as a result of consensus building between preparers, users and auditors. The Board, which consists of eleven stakeholders, makes final recommendations after following an extensive due diligence process. More information can be found on the Board by going to their web site. The Board's web site address is included on the handout.

There are two very significant accounting standards which are to take effect on the first of April 2005. One is related to how a government is to measure its surplus and deficit for the year. This is called the Reporting Model and it introduces the requirement of governments to report and depreciate their fixed assets, or tangible capital assets as we call them in Canada. The surplus and deficit will be the difference between revenues and expenses, on a full accrual basis of accounting. While internationally this model is very common it is presenting challenges for us in Canada. Assets must be identified, values put on them and the public must be educated on what a surplus will mean. At present a surplus represents the amount that revenue exceeds expenditures. Governments of course want to report surpluses, so the new model will present its own challenges. Auditors will now have to decide on which costs get capitalized, the reasonableness of depreciation rates, when assets should be written down, etc.

The pressure to deliver surpluses is increased in those provinces that have passed balance budget legislation. And this pressure is further intensified when a failure to have a surplus impacts on the salaries paid to certain politicians and bureaucrats. The politicians see this as a strong message to their citizens that they are financially responsible, but you can imagine the pressure at year end to ensure that a surplus is in fact the financial result.

An important indicator of financial performance is the amount by which the total debt of a government exceeds its financial assets, such as cash and receivables. We call this figure net debt and it represents the amount that must be raised from future taxes to cover the decisions of the past. A government must report its net debt position on the statement

of financial position. It is extremely important that a government manage its net debt position.

The second significant standard dictates what gets included in the government's financial statements. This is called the Reporting Entity Standard and it requires any organization that is controlled by government to be consolidated into the Summary Financial Statements. This change has not come easily because under the current rules some governments have used these organizations to transfer funds in and out of the government and in this way influence the results for the year. As auditors we now wonder what new scheme is on the horizon.

I mentioned earlier that The Canadian Council of Legislative Auditors meets twice a year. One of these meetings is devoted almost exclusively to sharing with each other the "creative" accounting and reporting schemes we are finding. This enables us to be aware of such schemes sometimes before they appear in our own jurisdictions and it also enables to hear how our colleagues are planning to deal with them. Sometimes we will ask the Public Sector Accounting Board to take on an issue that requires particular guidance

#### *Auditing Developments*

There are two audit developments that I thought might be of interest. The first one relates to how each of our office conducts financial audits. We have our own audit manuals, software, procedures and questionnaires. It is time consuming for each of us to look after our own systems and provide appropriate training. So, we have established a Task Force to see how we can harmonize all these different methods and procedures. There would be many advantages but we do recognize there also many challenges to overcome.

The second development is related to the creation of the Canadian Public Accountability Board. This Board was created by the Canadian Institute of Chartered Accountants and the Canadian Securities Administrators. This Board has the important mission of overseeing the auditors of public companies. In a sense it is an auditor of auditors and it has been created as a result of financial failures such as Enron and Worldcom. As you are aware in those failures the role of the auditor was questioned and criticized. The Board plans to work closely with all stakeholders to promote high quality, independent auditing. So how could this impact on the legislative audit offices?

We believe that we should be operating at the highest standard level possible. So we are investigating the possibility of our offices being subjected to a review by this Board. We are not required to do so, but we believe it may be in the best interests of the public we serve to voluntarily participate. We would also have another response when someone asks "who audits the auditor?"

## **Recent Developments in Value for Money (Performance) Auditing**

All Legislative Auditors in Canada have the mandate to perform value for money or performance audits. This means that we can look at any program offered by government and make observations on whether it is being delivered efficiently and economically. We can also comment on whether it is in compliance with legislation and policy. In addition we are able to comment on whether or not government is reporting on the effectiveness of their programs

### *Audits cover a wide spectrum*

I want to emphasize the point that we can look at any program offered by government by sharing with you a brief description of a number of audits done in Canada over the past few years.

For instance in the province of British Columbia, we can find audits on

- Earthquake Preparedness
- Protecting Drinking Water Sources, and
- Managing Fire Risks

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Two interesting audits in the province of Alberta are;

- the Examination of the Integrity of Gaming (Gambling) Activities,
- Emergency Preparedness

The province of Ontario has done an audit on Children's Mental Health Services and another audit related to violence against women. In my own province of New Brunswick we have looked at:

- Pupil Transportation, which was related to the safe transportation of pupils to and from school,
- Food Preparation in Food Service Establishments such as restaurants, and
- Child Day Care Facilities

And finally at the Federal Level, the Auditor General of Canada has audited the Protection of Cultural Heritage, The country's Anti-Terrorism Initiative and The Implementation of the Canadian Space Program

The details on all these audits can be found by going to the Canadian Council of Legislative Auditors web site and linking to the respective legislative audit office.

Our public is very interested in this work and I am sure we keep government departments "on their toes" because they really have no idea what we may be looking at next. In New

Brunswick we have even done a couple of audits on the decision making process in government.

### ***Collaborative Audits***

In Canada it is now common to see a number of audit offices working collaboratively on the same value for money audit. This could happen when there is some overlap between federal and provincial responsibilities. My own office has just completed an audit with the Federal Auditor General Office and the audit office in British Columbia. We were interested in the protection of Wild Salmon and the risks created by the Salmon Aquaculture Industry. In this situation the Federal Government has certain responsibilities and the Provinces have others.

There are other situations where a high profile issue may be of interest to a number of jurisdictions. For instance at the present time a number of Provincial audit offices are looking at the prescription drug programs sponsored by their respective governments. These offices would work together to develop the same audit objective and audit criteria.

The networking that we have created through the Canadian Council of Legislative Auditors contributes greatly to the participation in audits of this nature. In fact the Council has an objective to seek out and perform collaborative audits.

### ***Governance Reviews***

In Canada a number of legislative audit offices are looking at the governance structure of Crown Corporations and Agencies. These are entities that are controlled and in most cases owned by the government. Many public services are provided through these organizations, and that is why we are interested in examining their governance structures.

The Governance reviews we undertake would examine how directors are appointed, whether or not they are given an orientation session and whether or not they are given adequate training to assist in fulfilling their duties. In such reviews we would also be interested in knowing if the Directors are aware of what they are responsible for and who they are responsible to. Are they involved in strategic planning? Do they evaluate the performance of their President or Chief Executive Officer?

Our overriding objective in doing this work is to identify shortcomings that lead us to make recommendations for improvement... Studies have shown that well managed entities produce above average results.

This area is of such interest and importance to our Legislative Audit Community that the Canadian Council of Legislative Auditors has created a study group to examine governance in the public sector and to provide guidance as to how each office could approach this important topic

We have challenges in this area because traditionally appointments to such entities have been for political reasons as opposed to good governance reasons. Progress however is definitely being made.

## **Performance Reporting and Auditing**

I want to close by talking about Performance Reporting and the audit of performance information. This may be seen as a very different and unique role for an auditor to play.

In order for governments to be accountable they must report to their citizens on their activities and accomplishments. And the reporting is particularly valuable when it talks about goals and objectives and whether or not they have been accomplished. An example would be a government having a health care objective related to the waiting time for hip replacements. And then each year reporting on what the actual wait time has been. This type of information is much more valuable than just knowing how much money is being spent on health care.

The legislative auditors in Canada are very active in promoting good performance reporting. I will give some examples, starting first with the Federal Government.

In 2002 The Office developed a method for assessing federal Department Performance Reports. The model had five basic audit criteria:

- Strategic outcomes are clear
- Performance expectations are clear and concrete
- Key results are reported against expectations
- Performance information is reliable, and
- There is evidence that performance information is being used.

The reports were graded on a scale of 1 to 5, with 5 indicating that the performance report had fully satisfied that particular criteria.

The following year the performance reports of nine Federal Departments were reviewed using the methodology and reported on to Parliament. The report concluded that “while we found some promising practices in departmental performance reporting, we still felt that progress was slow.” The office intends to report annually on the progress made in improving the quality of these performance reports.

For several years the Auditor General of British Columbia has been promoting improved reporting to the Legislative Assembly. One of the goals of that office is that “Legislators and the public receive the best information possible for assessing the performance of government.” In 2000, the requirement to report on performance was embedded in

legislation in the Province of British Columbia. The efforts of the audit office no doubt attributed to this decision.

In general, Canadian legislative auditors feel it is important to be supportive of initiatives to improve performance reporting. This is another one of those topics that we work on together through the Canadian Council of Legislative Auditors. We also support the work being done by the Public Sector Accounting Board which is working on a project that will provide guidance for the development and acceptance of performance reporting recommendations. This is a very significant departure from the Board's traditional role of setting accounting standards.

But our interest in Performance Reporting goes beyond encouraging better reporting and accountability. We are also interested in the reliability of the information and this has led a number of auditors becoming involved in auditing the non-financial performance information. The Audit Office in Alberta does a lot of this. And since 1997 the Federal Audit office has been auditing three annual reports and expressing an opinion on the performance information included in the reports. The auditor general is required to provide an unqualified opinion, a qualified opinion, an adverse opinion or a denial of an opinion.

Our audit community has been greatly encouraged by the decision made by the federal government and the 10 provinces 2 years ago to report on various performance indicators related to the health of Canadians. Next month there will be a national report on various health indicators such as life expectancy, teenage smoking rates and the prevalence of diabetes. This report will show the results for each province and the average for all of Canada. We are also very pleased to have been asked to audit the reported information.

I have now completed my review of all topics that I introduced to you when I began. You should now have a reasonable understanding of the Legislative audit profession in Canada and the changes taking place in the preparation of the public accounts, understand the breadth and scope of our value for money practice and be aware of the work we are doing in promoting and auditing performance information.

Thank you

I will now entertain questions