



# **AUDITOR GENERAL of Newfoundland and Labrador**

## **Report To the House of Assembly**



**On the Business Plan**

**For the Year Ended  
March 31, 2013**

# 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.*

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**CHAPTER  
1  
INTRODUCTION**



**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

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September 20, 2013

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 March 31, 2013.

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.

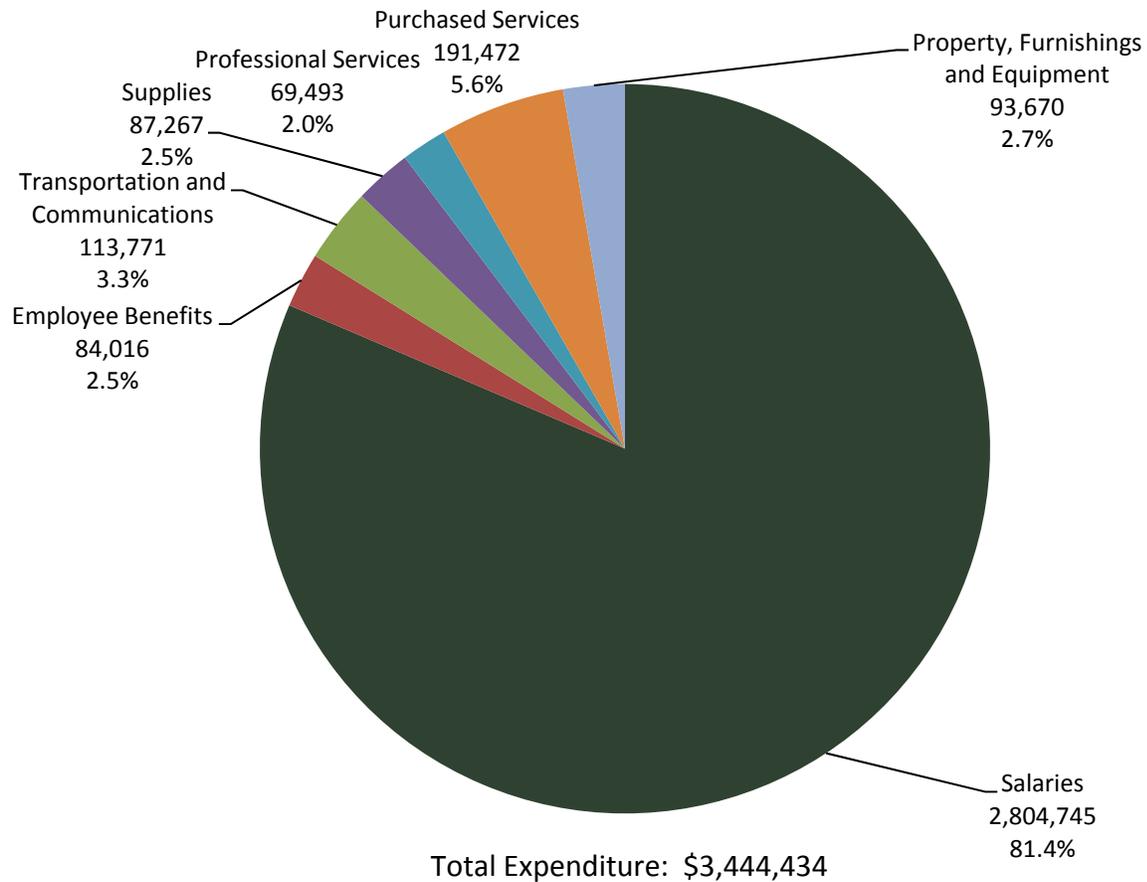
This Report to the House of Assembly is for the year ended March 31, 2013, and is the second Report related to the Office's *Business Plan for the Three Fiscal Years 2011-12, 2012-13 and 2013-14*. That Plan was presented to the Speaker of the House of Assembly on June 14, 2011. This report is designed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

Figure 1 provides details on the \$3,444,434 million in gross expenditures (excluding statutory salaries of \$394,497) incurred by the Office for the year ended March 31, 2013.

...2

**Figure 1**

**Gross Expenditures of the Office of the Auditor General  
For the Fiscal Year Ended March 31, 2013**



Approximately 88% 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, Performance Reviews and Special Projects. Table 1 provides the budgeted and actual hours by the type of work carried out during the year. No Special Projects were undertaken during 2012. The information is provided on a calendar year basis to coincide with our audit cycle.

**Table 1**

**Distribution of Audit Work  
For the Calendar Year Ended December 31, 2012**

	BUDGET		ACTUAL	
	Hours	%	Hours	%
Financial Statement Audit of the Province	9,563	20.0	10,267	22.0
Financial Statement Audits of Crown Agencies	12,035	25.2	14,833	31.8
Performance Reviews	26,142	54.8	21,557	46.2
<b>TOTAL</b>	<b>47,740</b>	<b>100.0</b>	<b>46,657</b>	<b>100.0</b>

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 2012* was submitted to the Speaker of the House of Assembly and released publicly on January 23, 2013. That report included 13 separate items on projects undertaken by the Office during the year.
- The Office performed the financial statement audit of 28 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 39 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 March 31, 2012. 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 January 23, 2013. 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; timeliness of the Province's financial statements; retirement benefits; and environmental liabilities.

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.

Respectfully submitted,

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**

**CHAPTER  
2  
HIGHLIGHTS AND  
ACCOMPLISHMENTS**

## Highlights and Accomplishments

Following is a summary of key highlights and accomplishments for our Office during the fiscal year ending March 31, 2013:

### **2.1 Succession**

During the past two years, six members of the Office's executive and senior management team have retired. As a result, the Office welcomed a new Auditor General in June 2012 and several existing staff have been promoted to executive and senior management roles.

### **2.2 Canadian Generally Accepted Accounting Principles**

Revisions to Canadian Public Sector Accounting Standards became effective for fiscal years beginning on or after January 1, 2011. As a result of these revisions, many Government organizations adopted new accounting frameworks during 2011-12. During our audit work in 2012, we worked with our clients to ensure an orderly transition to the appropriate accounting framework.

### **2.3 Electronic Working Papers**

As part of our implementation of electronic working papers, the Office has adopted the Smart Sync feature of Caseware Working Papers software to allow for more efficient file management procedures. This year we completed the roll out of Smart Sync and updated to the latest version available.

### **2.4 Professional Development**

As part of our efforts to continue providing meaningful professional development to our staff and, recognizing the significant changes in accounting standards, a concentrated effort was made during the year to provide our staff with opportunities for professional and leadership development.

### **2.5 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 concluded virtualization of our Office servers and implemented an enhanced file back-up process.

### 2.6 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 stand-alone domain and within our shared applications with the Government of Newfoundland and Labrador. This year we have continued implementing the recommendations arising from this review.

### 2.7 Performance Measures

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, Crown agencies, performance reviews and special assignments - outlined in the Business Plan for 2011-12 to 2013-14.

Performance Measures	Status 2012-13
<p>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>	<p>Our Auditor's Report on the Public Accounts for the year ended March 31, 2012 was dated January 4, 2013. The Public Accounts were released by Government on January 16, 2013. The original time schedule provided by the Office of the Comptroller General called for the Public Accounts to be tabled during the Fall of 2012. Delays in receipt of supporting documentation resulted in a delay in the completion of the audit.</p> <p>Of the 28 Crown agency financial statement audits that were performed during 2012, only 5 were completed within three months of the fiscal year-end. Of the remaining 23, one could not be performed during 2012-13 as the agency was not ready for audit, while 22 were delayed as a result of a combination of the agencies not providing supporting information in sufficient time for completion within three months of fiscal year end and the issues encountered where agencies had to convert to a new accounting framework.</p> <p><i>Note: Although comments in this Report relate to the fiscal year ended March 31, 2013, for the most part comments on our work relate to financial statements for the fiscal year ended March 31, 2012.</i></p>

## Highlights and Accomplishments

Performance Measures	Status 2012-13
<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 28 Crown Agency financial statement audits that were performed during 2012, 8 audits were completed within 10% variance of budget for time and cost, one audit could not be performed during 2012-13 as the agency was not ready for audit, and 19 audits were not completed within 10% variance of budget because of issues related to conversion to new accounting frameworks, clients' lack of preparation and new staff assignments.</p> <p><i>Note: Although comments in this Report relate to the fiscal year ended March 31, 2013, for the most part comments on our work relate to financial statements for the fiscal year ended March 31, 2012.</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 2013 to review past work, discuss strategic human resource issues and plan for upcoming audits. All employees attended a consultation session in January 2013 to identify possible performance reviews 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 April 24, 2013, we released the report <i>Update on Prior Years' Report Recommendations</i> related to monitoring the implementation status of prior years' recommendations. We found that at least 84% of all recommendations had been acted upon (fully implemented, otherwise resolved or partially implemented) within one year of our report date which met our goal of 80%. We found that at least 90% of our recommendations had been fully implemented or otherwise resolved within four years of our report date which met our goal of 90%. However, our goal of having 80% of our recommendations fully implemented or otherwise resolved within two years of our report date was not met as only 76% of our recommendations had been implemented or otherwise resolved within two years.</p>
<p>5. Provide the House of Assembly with our reviews of departments and monitoring of Crown agencies by January 31 of the year following the previous fiscal year-end.</p>	<p>Our 2012 Report to the House of Assembly on <i>Reviews of Departments and Crown Agencies</i> was provided to the Speaker on January 23, 2013, prior to the statutory deadline of January 31.</p>

## Highlights and Accomplishments

<b>Performance Measures</b>	<b>Status 2012-13</b>
6. Report on all special assignments conducted within the time period requested.	There were no special assignments to report on for the period April 1, 2012 to March 31, 2013.
7. Provide the House of Assembly with an accountability report on our Office by September 30 of each year.	Our Office presented its Report on our Business Plan to the Speaker of the House of Assembly on September 26, 2012.

**CHAPTER**  
**3**  
**PERFORMANCE**

## Performance

In 2011, a new Business Plan was developed which was designed to guide our Office for the fiscal years from April 1, 2011 to March 31, 2014. This section provides an update on the planned progress associated with each strategic issue from our Plan for the year 2012-13.

### 3.1 Update on Progress related to Strategic Issues, Goals and Objectives

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

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

**Objective:** By March 31, 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.

<b>Business Processes (Legislative Audits Projects)</b>			
	<b>Planned Performance for 2012-13</b>	<b>Actual Performance for 2012-13</b>	<b>Explanation of Variance (if applicable)</b>
1	Revised process for identifying and selecting legislative audits	Templates used to communicate ideas for potential projects have been revised to include guidance on risk assessment and how to analyze different criteria for ranking projects.	n/a
2	Testing of the revised process	During 2012-13, these new templates and guidance were used by the Office in identifying and selecting legislative audits.	n/a

**Objective:** By March 31, 2014, the Office of the Auditor General will have documented and implemented an updated system for the identification and selection of legislative audits.

**Measure:** Documented and implemented on updated system for the identification and selection of legislative audits.

## Performance

*Indicators:*

- Documented policies and procedures for identifying and selecting legislative audits; and
- Implemented system for identifying and selecting legislative audits.

### 3.1.2 Issue #2: Human Resource Management

**Goal:** By March 31, 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 and performance reviews.

**Objective:** By March 31, 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

<b>Human Resource Management</b>			
	<b>Planned Performance for 2012-13</b>	<b>Actual Performance for 2012-13</b>	<b>Explanation of Variance (if applicable)</b>
1	Enhanced mentoring and supervision skills through attendance of senior audit staff at human resource management training	Ten senior audit staff participated in human resource management training.	n/a
2	Revised Employee Development Program which includes specific training considerations to address succession planning	Employee development was concentrated in on-the-job training and mentoring resulting in nine senior staff taking on enhanced roles in the organization as part of our succession planning initiatives.	n/a

## Performance

*Objective:* By March 31, 2014, the Office of the Auditor General will have updated the Employee Development Program to address additional succession planning considerations.

*Measure:* Updated Employee Development Program with additional succession planning considerations incorporated

*Indicators:*

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

### 3.1.3 Issue #3: Information Technology

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

*Objective:* By March 31, 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.

Information Technology			
	Planned Performance for 2012-13	Actual Performance for 2012-13	Explanation of Variance (if applicable)
1	Documented policies and procedures detailing measures in place to enhance the protection of the Office's Audit Working Papers/data	Policies and procedures detailing measures in place to enhance the protection of the Office's Audit Working Papers/data have been documented as part of the Office's Business Continuity Plan.	n/a
2	Pilot Caseware Working Papers Data Store Administration Tool	Caseware Working Papers Data Store Administration Tool was assessed by the IT section with a recommendation to move forward with the implementation.	n/a

## Performance

*Objective:* By March 31, 2014, the Office of the Auditor General will have updated the measures in place to enhance the protection of the Office's Audit Working Papers/data.

*Measure:* Updated system in place to enhance the protection of the Office's Audit Working Papers/data

*Indicators:*

- Implementation of the Caseware Working Papers Data Store Administration Tool; and
- Adoption of measures that allow for greater security of Audit Working Papers/data by locking down files and assigning roles to restrict access to the appropriate level of responsibility.

**CHAPTER**  
**4**  
**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 March 31, 2014 and beyond:

### **4.1 Amendments Required to the *Auditor General Act***

Changes to the *Auditor General Act* (the *Act*) continue to be a priority for the Office and amendments to the *Act* have been proposed. These proposed changes should meet the needs of the House of Assembly and are consistent with the mandate of a modern Auditor General's office.

### **4.2 Office Resource Management**

The Office will be challenged in 2013-14, and possibly beyond, as a result of a significant reduction in resources available to meet our mandate. The number of audits of the Province and Crown Agencies does not change and, for the most part, there is a legislative requirement for the Office to audit the financial statements of these entities. The reduction will challenge our ability to complete audits on a timely basis and will challenge the Office to maintain the same level of performance reviews.

### **4.3 Human Resource Management - Succession Planning**

During the past 2 years, 6 members of the Office's executive and senior management have retired. This has permitted opportunity for advancement and new hires. Our challenge is to continue to develop staff competency as people adjust to new roles.

### **4.4 Performance Reviews**

Conducting relevant performance reviews 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, performance reviews must be timely and relevant to the public and the House of Assembly. Performing appropriate risk evaluations of Government programs continue to be a priority and a challenge.

### **4.5 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.

### 4.6 Peer Review

To ensure the Office's work is of the highest quality and in compliance with generally accepted accounting principles and generally accepted auditing standards of the Canadian Institute of Chartered Accountants, the Office participates in the peer review program offered through the Canadian Council of Legislative Auditors. As an opportunity to further enhance the Office's quality assurance, the Office has commenced participation in the practice inspection program of the Institute of Chartered Accountants of Newfoundland and Labrador. These reviews by our peers, while challenging during the process, provides the Office the opportunity to improve our quality control process and identify training requirements for staff.

### 4.7 Three-Year Performance Review Plan

The Office has commenced the process of putting in place a three-year plan for performance reviews. Such a process will allow the Office to make strategic choices to ensure our mandate is met and that the members of the House of Assembly are best served. There is also an opportunity to realize some efficiencies with a rolling three-year plan since there will always be projects identified for review.

**CHAPTER**  
**5**  
**FINANCIAL INFORMATION**

## Financial Information

This section includes the audited financial statements of the Office for the year ended March 31, 2013.



Financial Information

Office of the Auditor General

Province of Newfoundland and Labrador

March 31, 2013

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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, 2013, 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, 2013, 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.

*Grant Thornton LLP*

St. John's, Canada

June 26, 2013

Chartered Accountants

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

Year Ended March 31 2013                      2012

**Assets**

Current

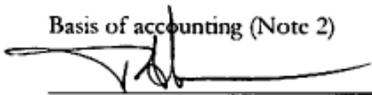
Audit fees work in progress	\$ 148,879	\$ 82,945	
Accountable advance	700	700	
Prepays	<u>14,239</u>	<u>25,240</u>	
	<u>\$ 163,818</u>	<u>\$ 108,885</u>	

**Liabilities**

Current

Accrued paid/annual leave	\$ 966,314	\$ 907,439	
Accrued payroll	32,528	31,613	
Accrued overtime	6,039	18,096	
Accrued severance pay	<u>520,622</u>	<u>531,232</u>	
	<u>\$ 1,525,503</u>	<u>\$ 1,488,380</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

2013

2012

	Actual	Estimates		Actual
		Amended	Original	
<b>Executive Support</b>				
Salaries	\$ 212,030	\$ 212,100	\$ 209,500	\$ 198,401
Salaries (statutory)	394,497	157,000	157,000	469,692
Employee benefits	4,711	4,800	3,000	3,247
Transportation and communications	19,012	19,100	17,000	14,798
Professional services	-	2,000	2,000	-
Purchased services	366	500	500	692
	<u>\$ 630,616</u>	<u>\$ 395,500</u>	<u>\$ 389,000</u>	<u>\$ 686,830</u>
<b>Administrative Support</b>				
Salaries	\$ 205,692	\$ 205,800	\$ 194,300	\$ 193,366
Employee benefits	13	100	5,500	8,476
Transportation and communications	25,937	28,600	33,600	28,354
Supplies	87,267	108,600	108,600	107,340
Professional services	10,000	11,000	6,000	553
Purchased services	191,106	204,700	204,700	198,563
Property, furnishings and equipment	93,670	95,800	47,800	52,460
	<u>\$ 613,685</u>	<u>\$ 654,600</u>	<u>\$ 600,500</u>	<u>\$ 589,112</u>
<b>Audit Operations</b>				
Salaries	\$ 2,387,023	\$ 2,457,600	\$ 2,601,500	\$ 2,635,670
Employee benefits	79,292	81,100	53,500	78,021
Transportation and communications	68,822	73,500	67,500	67,412
Professional services	59,493	59,700	10,000	46,393
	<u>2,594,630</u>	<u>2,671,900</u>	<u>2,732,500</u>	<u>2,827,496</u>
Revenue – Provincial	<u>(224,665)</u>	<u>(222,700)</u>	<u>(222,700)</u>	<u>(286,216)</u>
	<u>\$ 2,369,965</u>	<u>\$ 2,449,200</u>	<u>\$ 2,509,800</u>	<u>\$ 2,541,280</u>
Net expenditures	<u>\$ 3,614,266</u>	<u>\$ 3,499,300</u>	<u>\$ 3,499,300</u>	<u>\$ 3,817,222</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	2013	2012
Original estimates (net)	\$ 3,499,300	\$ 3,602,700
Add: revenue estimates net of statutory payments	<u>65,700</u>	<u>63,500</u>
Total appropriation	<u>3,565,000</u>	<u>3,666,200</u>
Total net expenditure	3,614,266	3,817,222
Add: statutory payments in excess of revenue	<u>(169,832)</u>	<u>(183,476)</u>
Total gross expenditure (budgetary, non-statutory)	<u>3,444,434</u>	<u>3,633,746</u>
Unexpended balance of appropriation	<u>\$ 120,566</u>	<u>\$ 32,454</u>

See accompanying notes to the financial information.

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Office of the Auditor General  
Province of Newfoundland and Labrador  
Notes to the Financial Information  
March 31, 2013

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**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.

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**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.

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Office of the Auditor General  
Province of Newfoundland and Labrador  
Notes to the Financial Information  
March 31, 2013

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**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.

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**3. Commitments**

The Office is committed to annual rental payments for the next five years as follows: 2014 - \$172,710; 2015 - \$100,935; 2016 - \$29,160; 2017 - \$29,160 and 2018 - \$12,150.

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**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.

**Financial Information**

## APPENDICES

**APPENDIX**

**I**

**DEPARTMENTAL AUDITS PERFORMED  
BY THE OFFICE OF THE AUDITOR GENERAL  
AS AT MARCH 31, 2013**

## 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 March 31, 2012)

### General Government Sector

- Consolidated Fund Services
- Executive Council
- Finance
- Public Service Commission
- Service NL
- Transportation and Works

### Legislative Sector

- Legislature

### Resource Sector

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

### Social Sector

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

**Departmental Audits Performed by the Office of the Auditor General**

**APPENDIX**

**II**

**CROWN AGENCY FINANCIAL STATEMENTS**

**AUDITED BY THE OFFICE OF THE AUDITOR GENERAL**

**AS AT MARCH 31, 2013**

**Department of Advanced Education and Skills**

Private Training Corporation  
Student Loan Corporation of Newfoundland and Labrador

**Department of Education**

Provincial Information and Library Resources Board

**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

**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 Innovation, Business and Rural Development**

Business Investment Corporation  
Newfoundland and Labrador Immigrant Investor Fund Limited  
Research & Development Corporation of Newfoundland and Labrador

**Department of Justice**

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

**Department of Natural Resources**

Livestock Owners Compensation Board  
Newfoundland and Labrador Crop Insurance Agency

**Service NL**

Consumer Protection Fund for Prepaid Funeral Services  
Public Accountants Licensing Board

**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  
CROWN AGENCY FINANCIAL STATEMENTS  
AUDITED BY PRIVATE SECTOR AUDITORS  
AS AT MARCH 31, 2013**

**Department of Advanced Education and Skills**

College of the North Atlantic  
Memorial University of Newfoundland  
Memorial University of Newfoundland - Pension Plan

**Department of Education**

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 Health and Community Services**

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

**Department of Innovation, Business 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

**Service NL**

Credit Union Deposit Guarantee Corporation  
Workplace Health, Safety and Compensation Commission  
of Newfoundland and Labrador

**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.

Finally, the Office participated in the Practice Inspection Program of the Institute of Chartered Accountants of Newfoundland and Labrador to ensure we maintain an appropriate level of quality and adhere to appropriate standards.

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

