

Nova Scotia

**2002 Performance Report
and 2003 Business Plan**

Office of the

AUDITOR

GENERAL

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit to the House of Assembly the 2002 Performance Report and 2003 Business Plan of the Office of the Auditor General, to be laid before the House in accordance with Section 9A of the Auditor General Act.

Respectfully submitted

A handwritten signature in cursive script, appearing to read "E. Roy Salmon".

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
February 13, 2003

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MESSAGE FROM THE AUDITOR GENERAL

I have been a strong proponent of government accountability since I became the Auditor General of Nova Scotia in 1992. During this time, I have watched the government of Nova Scotia struggle with and make progress in developing policies and processes that enable it to better account for not only its financial performance, but also performance towards non-financial goals. In 2000, a major milestone was reached with proclamation of legislated requirements for government accountability reporting and development of formal policies and guidelines applicable to all government departments, public service agencies and crown corporations.

I have reported on the financial and non-financial performance of my Office in my Annual Report for the past several years. This year, I have prepared a separate report on the operations of my Office. It presents information on the role of the Office, a discussion of the performance of the Office in 2002, and a business plan for 2003. I have adopted formats proposed by government for presentation of accountability reports and business plans to promote understanding and comparison. However, my Office operates and I report on a calendar year basis, which differs from the fiscal year reporting of most provincial government organizations. Accordingly, my Office's performance reporting and business plan are for calendar years 2002 and 2003, respectively. The previous business plan for my Office was presented in Chapter 17 of my 2001 Report to the House of Assembly.

I still view performance reporting as a work-in-progress for my Office. Performance reporting by government and legislative entities is a relatively recent field of study which is evolving as new research is conducted and various organizations try different approaches. We will monitor developments, consult and cooperate with other legislative audit offices, and continue to explore how best to report on our performance.

I was very pleased with the performance of the Office in 2002. In spite of continuing resource pressures, significant progress was made against the planned goals and priorities, and other unplanned work was undertaken including a special audit of the Workers' Compensation Board. As well, working in conjunction with the Department of Health and my legislative audit colleagues across the country, we completed a major audit of the Province's report on health performance indicators.

It should be noted that resource constraints impact on the delivery of all government programs, and my ability to carry out my mandate is affected in the same way. I have had discussions with government concerning this issue and hope to have it resolved.

Canadian generally accepted auditing standards require that I communicate at least annually with groups having oversight responsibilities for financial reporting subject to my audit, regarding all relationships between the entities audited and my Office that, in my professional judgement, may reasonably be thought to bear on my independence. In this regard, I assert that I am not aware of the existence of any such relationships. Further, I hereby confirm that I and my staff are objective with respect to the audit work of the Office within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia. The following section of this Report

provides additional information on the role and independence of my Office, including measures taken to ensure independence and objectivity are maintained.

The costs of the operations of my Office are funded through an annual appropriation of the House of Assembly. Other revenues are received from auditees who are billed fees for certain audits. All other revenues received during the year ended December 31, 2002 were for audit-related work.

I would also like to take this opportunity to express my appreciation to staff of the Office for their efforts and support. They are a diligent, professional group and the accomplishments outlined in this Report reflect their commitment.

Finally, I invite readers to visit my Office's website (www.gov.ns.ca/audg) where they can access this Report, Reports of the Auditor General since 1996, as well as other information.

ROLE OF THE AUDITOR GENERAL

ACCOUNTABILITY STRUCTURE

In its simplest form, accountability is the obligation to answer for an assigned responsibility. Accountability is an important component of parliamentary democracy due to the significant responsibilities conferred to elected officials by the public and the need for these officials to account for the stewardship of public money provided for government services and administration.

An audit function is important to any accountability structure. In the case of parliamentary democracy, elected officials and the public require assurance that government reporting on the spending of public funds is complete, accurate and fairly presented. In the absence of government reporting, there is also a need for auditors to examine and report on the control and performance of government organizations and programs. Elected officials and the public need to know that assurance provided by the auditor is free from bias. The Auditor General fulfills this role in the accountability structure of the government of Nova Scotia. The Auditor General, in the conduct of his audits and reporting to the House of Assembly, provides objective assurance needed by elected officials to govern, and by the public to hold elected officials accountable.

INDEPENDENCE OF THE AUDITOR GENERAL

Independence is critical to the effectiveness of an audit function. An auditor must be independent, and be perceived to be independent, of the organizations and operations subject to audit. Unless there is a clear demonstration of objectivity in the work of the auditor, the auditor's opinions and reporting will not be fully accepted, and the auditor's work will lose value.

The independence of the Auditor General is assured in various ways. The Office of the Auditor General was created and is empowered by the House of Assembly through an Act of the Legislature (the Auditor General Act.) The Act sets out the responsibilities of the Auditor General, and specifies that the Auditor General is to report directly to the House. The Act also vests sole authority for removal of the Auditor General with the House of Assembly. Therefore, the key functions of the Office, from selection of assignments to contents of reporting, are outside the control of government departments and organizations subject to audit.

PROFESSIONAL CONDUCT

The Office of the Auditor General operates to the highest standards of the accounting and auditing profession. The work of the Office fully adheres to standards for assurance engagements promulgated by the Canadian Institute of Chartered Accountants. The professional staff of the Office are required to abide by the Code of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia, and to disclose in writing annually any matters which may be perceived to affect their independence and objectivity. Because the Office is approved for training

students studying to become Chartered Accountants, it is subject to periodic reviews by the Institute to ensure it is complying with applicable standards and codes. The last review of the Office was performed during 1999.

TYPES OF AUDITS

The primary responsibility of the Office is to conduct audits in accordance with requirements of the Auditor General Act (Appendix I), and to report the results of these audits to the House of Assembly. The Auditor General can, in summary, audit organizations owned or controlled by government or which spend public funds, and organizations in receipt of financial assistance from government. Audits performed by the Office are classified into four categories:

- *Attest* - auditing of financial or other performance reports (e.g., annual financial statements) prepared by government and government organizations, and providing an opinion on fairness of presentation and compliance with generally accepted accounting principles, if applicable.
- *Internal control* - examination and reporting on systems and structures in place to protect public assets and revenues, and to control expenditure of public funds and use of public property.
- *Compliance* - assessing whether government programs and spending are in compliance with legislation, regulations and government policy.
- *Economy and efficiency* - assessing whether government organizations and programs give due regard to economy and efficiency in collection and expenditure of public money and use of public property.

Audit assignments sometimes address just one of these types, or combine two or more types. Assignments that include more than attest objectives are called broad scope audits by the Office. As a result of these audits, in addition to reporting to the House of Assembly, the Office provides advice and recommendations to government organizations to help them better administer and account for public money collected and spent.

Due to the number of financial statement audits that must be performed by the Office during May and June each year, the Office contracts with private sector accounting firms to help meet audit requirements. In such cases, the accounting firms perform the audit for and report to the Auditor General. The Auditor General reviews and relies on the work of the accounting firms in the provision of his opinion on financial statements.

Discretionary audits – those not mandated by legislation or occurring on an annual basis – are selected by the Office based on an analysis of government operations that considers factors such as materiality of revenues or expenditures, significance to the public, impact on government plans and priorities, risk of significant problems in the area, and time since the last audit. The Auditor General Act (Section 15) also provides for situations where audits are requested by government. In such

cases, the Auditor General is authorized to request that additional funding be provided for the audit, and can refuse an audit if, in his opinion, the assignment would unduly interfere with other work being performed by the Office.

2002 REPORT ON PERFORMANCE

INTRODUCTION

This Report is intended to fulfil the responsibility of the Office of the Auditor General to account for the expenditure of funds entrusted to it by the House of Assembly and to report on the achievement of the Office's mandate as provided in the Auditor General Act.

The following sections examine the financial and non-financial performance of the Office. The Report discusses achievements and progress of the Office related to the goals and priorities presented in its business plan. It presents the expenditures and recoveries of the Office for the year ended March 31, 2002 and compares them to the budget prepared for this period. It also presents a number of outcomes, performance measures and performance results that the Office uses to gauge its progress in the accomplishment of its mandate and goals.

The Report shows that the Office had numerous accomplishments during 2002 and continues to serve the members of the Legislature well in helping them to hold government accountable for its stewardship of public funds. However, it also shows that the Office is unable to perform as many audits as we believe would be required to fulfil the mandate of the Auditor General Act, and is seeking additional resources needed to increase the number of audits performed.

ACCOMPLISHMENTS

The following are significant accomplishments during 2002.

Audits

- 22 financial statement audits were performed by the Office for the year ended March 31, 2002. Of these, 11 were contracted out to private sector firms.
- 13 broad scope audits and an audit of health performance indicators were performed.
- The Office was requested by Treasury and Policy Board to perform a special audit of the Workers' Compensation Board of Nova Scotia. The audit was performed and is reported upon in Chapter 6 of the 2002 Report of the Auditor General.

Other activities

- The Office had five staff members who wrote the Uniform Final Examinations of the Canadian Institute of Chartered Accountants in October 2002. Three were successful in the examinations and acquired the professional designation of Chartered Accountant.
- The Office chaired a meeting of other legislative audit offices on the subject of auditing gaming and lottery activities.

- The Office hosted a conference of the eastern member offices of the Canadian Council of Legislative Auditors.
- The Office contracted for courses on the SAP/R3 computer system, derivative investment instruments and Value-For-Money auditing. Staff of government's Corporate Internal Audit group as well as eastern legislative audit offices were invited to attend each of the courses.
- The Office provided staff support to the Public Service Commission to assist it in the development of an evaluation and audit function to review human resource practices in government.

PROGRESS TOWARDS GOALS AND PRIORITIES

The following goals and priorities were presented in the previous business plan of the Office, included in Chapter 17 of the 2001 Report of the Auditor General. Presented below is a summary of progress against the six goals and related priorities.

Goal 1

To perform audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.

- Develop a strategy and implementation plan for the audit of government performance reports.

Progress: Completed an audit of a performance report prepared by the Department of Health (see below), and performed a review of aspects of the government's Annual Accountability Report for the fiscal year 2000-01.

- Audit and provide assurance on the performance report which the Department of Health is to have published by September 2002.

Progress: The Office completed the audit of 67 health performance indicators reported by the Department of Health on September 30, 2002. In September 2000, all of the First Ministers made a commitment, for the first time, to issue comparable performance indicator reports which were to be verified by a third party. All jurisdictions requested their legislative auditors to perform the verification. The Office worked closely with its counterparts in all other Canadian jurisdictions to jointly plan and conduct these audits.

- Follow up on the 2000 audit of the Halifax Regional School Board.

Progress: Deferred to next year.

- Focus more audit effort in the areas of:
 - treasury management;
 - management, use and control of information technology; and
 - government operations relating to offshore petroleum.

***Progress:** Expanded our knowledge of the offshore oil and gas industry and the government's related role and activities. This information will help us develop audit plans for the upcoming and subsequent years. An audit of SAP/R3 was commenced and the Office is planning to examine aspects of treasury management in 2003.*

Goal II

Through the use of knowledgeable staff and best professional practices, ensure the Office's work meets or exceeds relevant professional standards.

- Establish and implement an expanded quality control process for all assurance work.

***Progress:** Planning completed. Currently being implemented.*

- Establish and implement an expanded process for continuous review and updating of audit methodology.

***Progress:** New sources of methodology identified and being implemented.*

- Improve the Office's process for monitoring and disseminating changes in professional standards and bodies of knowledge.

***Progress:** Completed*

- Expand our monitoring of best practices in other jurisdictions.

***Progress:** The Office participates with other legislative audit offices in meetings and study groups sponsored by the Canadian Council of Legislative Auditors (CCOLA).*

Goal III

To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.

- Review the Office's current communication methods and develop a strategy to improve communication with key groups affected by the work of the Office.

Progress: To be addressed in 2003.

Goal IV

To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.

- Prepare a human resource plan which addresses staff hiring, training and development, compensation and succession/career-path.

Progress: The Office has various policies and processes relating to these human resource issues which have served it well, but has not yet brought them together in a comprehensive human resource plan. This will be a priority for the coming year.

- Determine the level of job satisfaction and gather/consider suggestions for improvement.

Progress: This exercise has been deferred.

Goal V

To ensure the Office manages its resources with due regard to economy and efficiency.

- Improve project management and reporting systems and practices.

Progress: Steps were taken to improve project management. The Office's audit automation software has been modified to provide better project management capabilities, especially with respect to project targets and budgets.

- Conduct more audits by optimizing the percentage of Office resources committed to assurance work.

Progress: The Office continued to examine and implement methods of increasing the percentage of Office resources committed to assurance work. These methods included: improved project management techniques to better control time spent on audits; effective use of information technology and audit software; and human resource practices such as goal and target setting and performance measurement.

Goal VI

To measure and report the Office's performance to the House of Assembly, using bench-marking against performance of other legislative audit offices as one means of evaluating performance.

- Develop a system which will enable us to define, measure and report on the performance of the Office.

***Progress:** Significant progress has been made by the Office in the measuring and reporting of performance, as evidenced by this Report. New measures were adopted for 2002 (i.e., release date of the Report of the Auditor General, and planned audits completed), and others are being contemplated for future years.*

- Benchmark Office performance against similar organizations in Canada.

***Progress:** A committee of CCOLA is working to develop common performance measures (see page 17).*

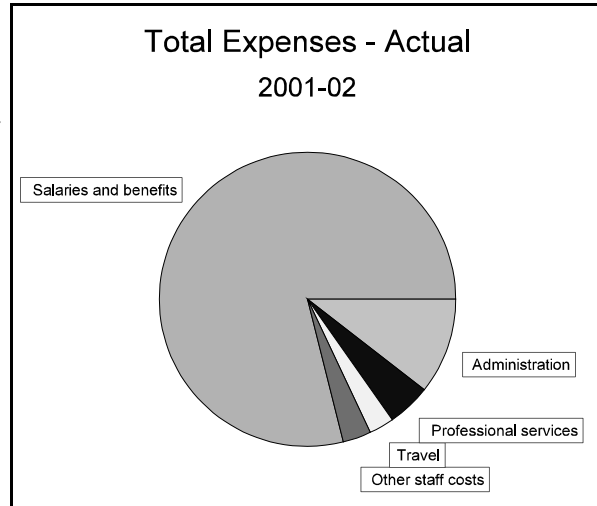
FINANCIAL RESULTS

OFFICE OF THE AUDITOR GENERAL OF NOVA SCOTIA NET EXPENSES			
	March 31, 2002 Actual	March 31, 2002 Budget¹	Variance Under (over) Budget
Salaries and benefits	\$ 1,565,038	\$ 1,718,000	\$ 152,962
Other staff expenses	61,766	69,000	7,234
Travel	51,528	53,000	1,472
Professional services	95,095	75,000	(20,095)
Office administration	206,701	145,000	(61,701)
Total Expenses	1,980,128	2,060,000	79,872
Recoveries	133,406	140,000	6,594
Net Expenses	\$ 1,846,722	\$ 1,920,000	\$ 73,278

Note 1 - budget figures do not agree with the budget contained in the previous business plan for the Office due to changes made by government subsequent to the publishing of the 2001 Report of the Auditor General.

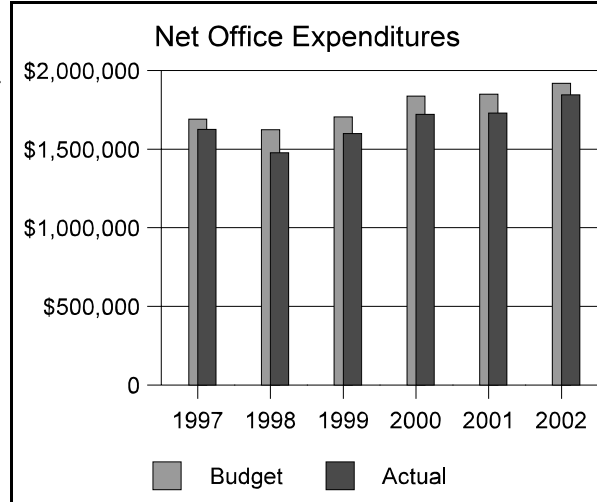
In 2001-02, the Office spent approximately \$73,000 less than planned. This continued the Office's long-standing history of meeting its budget.

The Office's budget and expenditures continue to increase each year, principally due to rising salaries in government. Salaries and benefits are the Office's largest expenditure, representing 85% of net expenditures in 2001-02. The Office underspent on salaries and benefits in 2001-02 due to vacancies in staff positions which took time to fill. Underspending in previous years was generally for the same reason. Uncertainty about future budget appropriations has resulted in hesitance to fill vacancies before future funding for a position is assured.



Professional services expense represents fees paid to private sector auditors to assist the Office with its heavy load of financial statement audits during May and June each year. Expenditures were higher than planned in 2001-02 due to contracting out of additional financial statement audits. The increases in professional services costs were recovered through increased billings to the organizations being audited.

Administration expenses were greater than budgeted because the Office purchased much-needed upgrades in furniture and computers.



OUTCOME MEASURES

The Office of the Auditor General monitors four categories of performance on an ongoing basis: Client Services, Resource Allocation, Audit Efficiency and Human Resources. For each of these areas, one or more performance indicators have been identified and systems of measurement have been developed.

The Office is also participating with the Canadian Council of Legislative Auditors in the development of common performance indicators. The Council has approved the future development of indicators in seven key areas.

- Total cost by audit
- Staff productivity
- Production of an annual performance report with audited financial statements

- Auditee feedback
- Legislator feedback
- Implementation of recommendations
- Employee satisfaction

Over the next couple of years, the Council will develop detailed definitions and calculation methodologies for these indicators to ensure consistency of measurement among legislative audit offices. The Nova Scotia Office of the Auditor General will use these indicators as measurement methodologies become established. We may also continue to use some or all of the indicators included in this Report.

PERFORMANCE INDICATORS

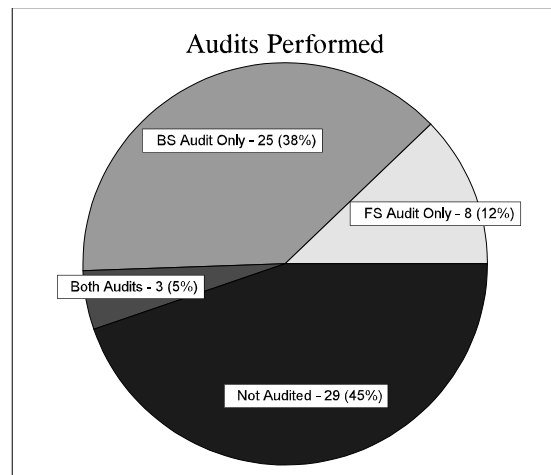
Client Services

1. *Entities Audited*

Definition - Number of major entities (organizations with annual revenues or expenses over \$5 million included in the Office's audit mandate) in which either a financial statement or broad scope audit was performed within the last five years. Financial statement audits include audits performed by the Office, as well as those performed on behalf of the Office under contract with a private sector firm.

What does it tell us? Whether the Office is able to achieve its mandate to audit all areas of significant public expenditure within a reasonable span of time.

Where are we now? In the last five years, 46% of major government organizations have not been audited by the Office of the Auditor General. This indicates a significant gap in achieving the legislated mandate of the Auditor General. The Office's 2003 business plan discusses how the Office will attempt to remedy this deficiency through the acquisition of more resources.



Where do we want to be? To increase total coverage by increasing the number of broad scope audits performed annually by 20%.

2. ***Release of the Report of the Auditor General***

Definition - Whether or not the office released its annual report by December 31, the deadline established by the Auditor General Act.

What does it tell us? Whether the Office provides timely reporting to the House of Assembly on the results of its audit work.

Where are we now? The 2002 Report of the Auditor General was released on January 15, 2003.

Where do we want to be? To release the Report on or before December 31 each year.

3. ***Assistance to PAC***

Definition - Analysis of types and frequency of assistance provided to the Public Accounts Committee (PAC) during calendar-year 2002.

What does it tell us? Whether the Office is adequately serving its primary client – the House of Assembly – by providing useful reporting and advice to the standing committee of the House responsible for monitoring public spending.

Where are we now? Representatives of the Office attended every meeting of the Public Accounts Committee (except report writing sessions) in 2002. The Committee met 22 times. Four meetings were for purposes of setting agendas or report writing. Of the remaining 18 meetings, 10 addressed matters raised in reports of the Auditor General.

Where do we want to be? To continue to provide useful reporting and advice to the Public Accounts Committee.

4. ***Results of Audits***

Definition - Nature of opinions provided during audits of March 31, 2002 financial statements and review of revenue estimates for 2002-03.

What does it tell us? The objective of a financial statement audit is to express an opinion on the fairness of the statements. However, both the auditor and auditee desire financial statements that are complete, accurate and presented fairly so that the opinion of the auditor is unqualified (i.e., positive). Whereas the auditee is wholly responsible for the information being audited, the auditor will provide advice which should help the auditee prepare fair statements.

Where are we now? An unqualified Auditor's Report was issued for government's March 31, 2002 summary consolidated financial statements. A qualified report was issued for its 2002-03 Revenue Estimates. The Office conducted 21 other financial statement audits, of which 14 resulted in an unqualified Auditor's Report.

Where do we want to be? To have all government financial statements comply with generally accepted accounting principles, which should reduce the number of qualified audit opinions. A qualified audit opinion may be unavoidable in some cases due to an inability to successfully audit certain financial statement components (e.g., donation revenues).

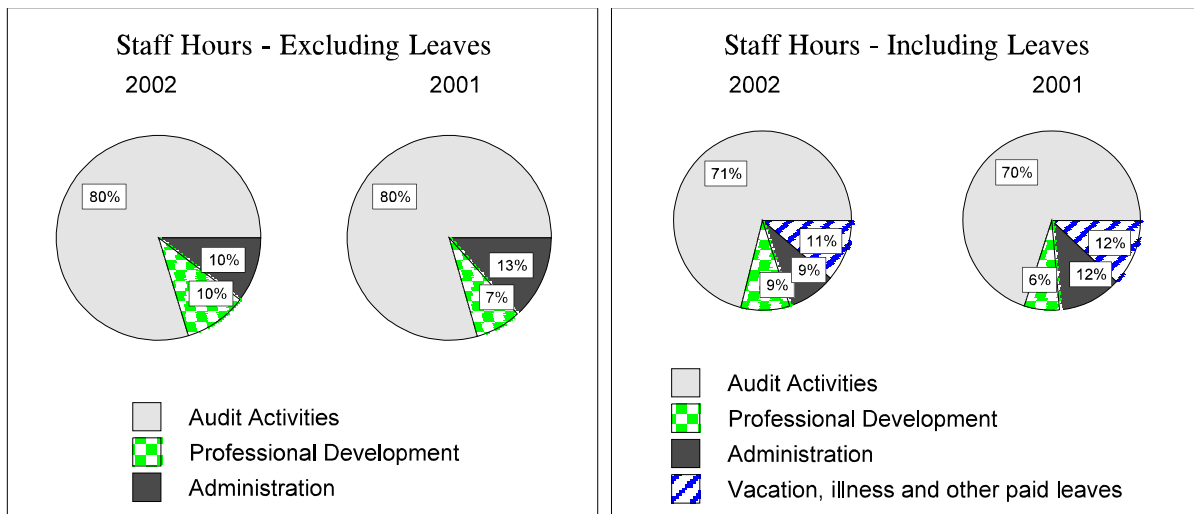
Resource Allocation

5. Staff Hours

Definition - Staff hours committed to various audit and administrative tasks for the year ended December 31, 2002. (This indicator does not include time spent by private firms contracted by the Office to conduct certain financial statement audits.)

What does it tell us? The objective of the Office is to maximize the number of hours committed to audit activities, while supporting participation in non-audit activities conducive to professional development or the effective and efficient administration of the Office.

Where are we now? Time committed to audit projects, both in terms of total hours and percentage of total hours, was very consistent with the prior year.



Where do we want to be? To spend in the range of 73% to 75% of time, including paid leaves, on audit activities.

Audit Efficiency

6. Planned Audits Completed

Definition - Number of audits included in the Office's operational plan for 2002 that were completed during the year.

What does it tell us? Whether the Office performed audits included in the plan for the year.

Where are we now? The 2002 operational plan included 15 non-discretionary audits (e.g., financial statement audits), all of which were completed during the period. The 2002 operational plan included 21 discretionary audits (i.e., broad scope audits), of which 11 were completed during the period. In addition, four unanticipated broad scope audits were conducted during the year.

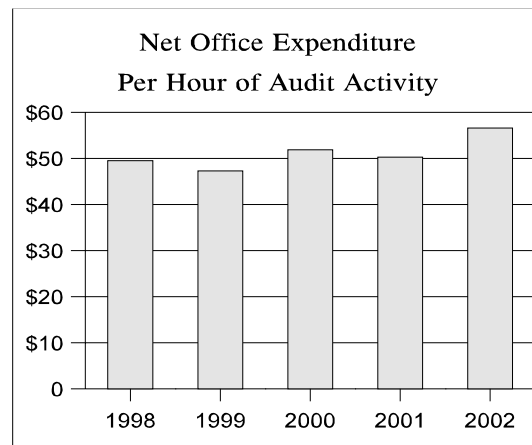
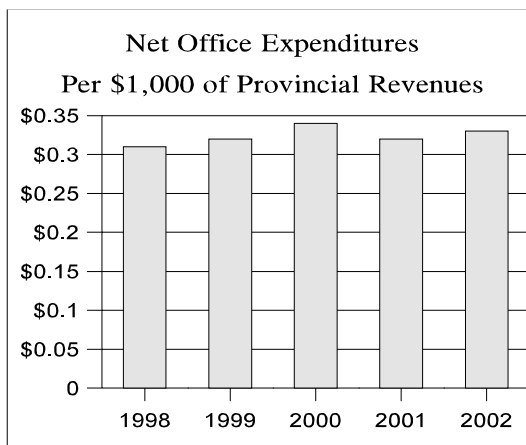
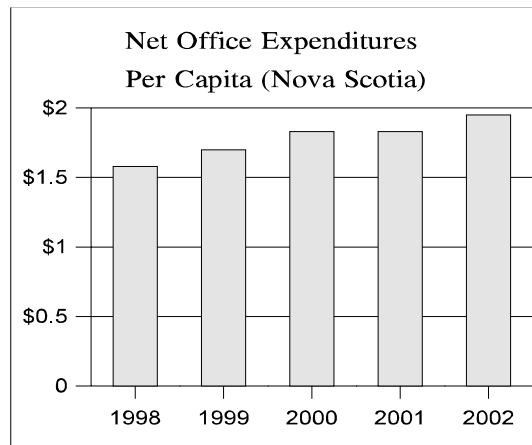
Where do we want to be? There will always be circumstances which change the Office’s operational plan during the year. Our goal is to perform each audit on the plan unless another audit of higher priority is substituted or there are appropriate reasons for not conducting an assignment.

7. Miscellaneous Financial Measures

Definition - For the fiscal year ended March 31, 2002, net expenditures of the Office of the Auditor General are shown in relation to three variables (on a per capita basis, per \$1,000 of Provincial revenues, and per hour of audit activity) to facilitate comparisons with other entities and jurisdictions.

What does it tell us? These performance indicators facilitate comparison of Office expenditures to other entities, and should provide input to discussion of Office funding requirements. This information should also help to assess trends in the Office’s expenditures which may indicate changes in audit efficiency.

Where are we now? Net Office expenditures per capita (Nova Scotia) increased to \$1.95. Expenditures per \$1,000 of government revenues increased marginally to \$.33 but were lower than in 2000. Expenditures per hour of auditing rose to \$56.59. Each indicator was impacted by a 7% increase in spending from the prior year. Increased spending was primarily for salaries and updating of information technology resources.



Where do we want to be? We will continue to monitor the trend in Office expenditures to ensure that the cost to the taxpayer is justified.

Human Resources

8. Professional Development and Support

Definition - Days of professional development time and time spent on supporting professional organizations, per staff member, for the year ended December 31, 2002. Data used in this measure does not include the time of accounting students spent on professional accounting programs because the number of students in such programs in any given year varies widely and their study time would not be a meaningful indicator of ongoing professional development for the majority of our staff.

What does it tell us? Maintaining the quality of audits requires auditors to stay current in professional standards and emerging issues, as well as lend support to the professional bodies which develop professional standards and conduct research.

Where are we now? 2002: 15 days.

Where do we want to be? 10 to 15 days per year.

9. Staff Turnover

Definition - The number of staff leaving or being hired by the Office during an extended period, and whether staff leaving the Office go on to careers elsewhere in the Provincial government.

What does it tell us? In order to meet its auditing goals, the Office must maintain an adequate complement of professional and support staff. Some turnover to facilitate career progression is desirable, but it is important that net turnover not be negative over the longer term. If staff leave the Office, it is of public value to retain the training and experience within the Provincial government, so the number of staff going to positions elsewhere in government is important.

Where are we now? Four auditors have left, and six have joined the Office since January 1, 2000. One staff member retired, one left the government entirely, and two accepted employment with Provincial government organizations.

Where do we want to be? To maintain staff at full complement, but to have a rate of turnover that will allow for healthy career development for staff, whether with the Office of the Auditor General or elsewhere in government.

2003 BUSINESS PLAN

MISSION AND VISION

The mission of the Office of the Auditor General expresses who the organization serves, how it serves them, and what it hopes to achieve.

To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

The vision of the Office of the Auditor General expresses its aspirations for itself, as well as the greater outcome it wishes to be a prime contributor towards.

Demonstrating and being recognized for independence, professional excellence, and credibility.

Making a significant contribution in support of an accountable and well-performing government.

PLANNING CONTEXT

Mandate - The Office of the Auditor General is an organization created and empowered by the House of Assembly of Nova Scotia. The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989) and other legislation. The Auditor General Act specifies the responsibility to examine the accounts of the Province, its various agencies and transfer payment recipients, and the requirement to report to the House of Assembly on the government's stewardship of public funds.

The Auditor General helps the House of Assembly to hold government to account by providing opinions:

- on the credibility of financial statements and other government accountability reports;
- concerning compliance with legislation, regulations, agreements, and policies;
- on the adequacy of control; and

- on the extent of due regard for economy and efficiency in the management of public funds.

The Act vests sole responsibility for removal of the Auditor General in the House of Assembly. This protection provides appropriate independence from government.

Organization - The Office is located in Halifax and is comprised of 27 staff, all but three of whom are professional accountants or studying to become a professional accountant. The Office is organized into three teams, each led by a Deputy or Assistant Auditor General. Each team is responsible for auditing a portfolio of government departments and related agencies, boards, commissions and transfer payment recipients. An organization chart is included as Appendix II to this Report.

Major Challenges - The major challenges faced by the Office are summarized as follows:

- Remaining well versed in the standards and body of knowledge of the numerous professional fields that impact on the scope of our audits (e.g., accounting, auditing, information technology, performance reporting, governance, value-for-money, public administration, auditing of compliance with legislation and regulations), and maintaining a good understanding of the structure and operations of the government organizations that we audit.
- Maintaining a full complement and appropriate mix of highly-motivated professional staff.

STRATEGIC GOALS

As a result of strategic planning, the Office has identified twenty-five detailed goals, organized under six headings. The following is a consolidation and summary of these goals.

- I. To focus on audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.
- II. Through the use of knowledgeable staff and best professional practices, to ensure the Office's work meets or exceeds relevant professional standards.
- III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.
- IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.
- V. To ensure the Office manages its resources with due regard to economy and efficiency.

- VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.

CORE BUSINESS AREAS

The Office has two core business areas, as follows:

- Conduct audits in accordance with generally accepted auditing standards and report to the House of Assembly to help it hold government accountable for stewardship of public funds.
- Provide advice to government managers to help them better manage and account for their performance.

However, the two areas are fully integrated as both are related products of all audits. Thus, the areas cannot be separated for planning purposes and this plan does not differentiate between them when discussing goals, priorities or resource management.

PRIORITIES

- I. To perform audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.
 - The Office has a broad audit mandate which encompasses government departments, boards, commissions, agencies, universities, school boards, district health authorities, and other recipients of government transfer payments. However, the Office has not been able to audit all of these entities on a regular basis. In 2003, the Office will try to begin to address this issue by increasing audit frequency in areas that are currently receiving inadequate attention, namely school boards, district health authorities, universities, government information technology, and treasury management. We estimate that the equivalent of four or five additional auditors are required to accomplish this objective. The Office has been discussing resource matters with central government agencies with the anticipation of acquiring additional resources through the budget process.
 - To perform each assurance assignment planned for calendar year 2003 (see Appendix V).
- II. Through the use of knowledgeable staff and best professional practices, ensure the Office's work meets or exceeds relevant professional standards.
 - Participate in Canadian Council of Legislative Auditors (CCOLA) initiative to establish peer review of audit projects.

- Implement any requirements stemming from the new professional oversight body created by the Canadian Institute of Chartered Accountants.
 - Implement new IT auditing methodology.
 - Acquire full access to and use functionality of SAP/R3's Audit Information System module in audit projects.
- III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.
- Review the Office's current communication methods and develop a strategy to improve communication with key groups affected by the work of the Office.
 - Enhance functionality and presentation of Office's website.
- IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.
- Prepare a human resource plan which addresses staff hiring, training and development, compensation and succession/career-path.
- V. To ensure the Office manages its resources with due regard to economy and efficiency.
- Conduct more audits by optimizing the percentage of Office resources committed to assurance work.
 - Examine current practices relating to the billing of audit projects and implement a policy that is more efficient, consistent and fair.
- VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.
- Develop and implement a system to examine and report on the implementation of recommendations made during audits.
 - Benchmark Office performance against similar organizations in Canada.

BUDGET CONTEXT

The Office derives its funding from an annual appropriation of the House of Assembly, as well as from the billing of audit services in certain situations. The following shows the actual, budgeted and forecasted expenditures, recoveries and funded staff positions of the Office for the years 2001-02 to 2003-04.

**OFFICE OF THE AUDITOR GENERAL OF NOVA SCOTIA
NET EXPENSES AND STAFFING**

	Actual 2001-02 (Note 1)	Budget 2002-03	Forecast 2002-03 (Note 2)	Preliminary Budget 2003-04
Salaries and benefits	\$ 1,565,038	\$ 1,704,500	\$ 1,771,800	\$1,921,500
Other staff expenses	61,766	71,900	95,000	69,000
Travel	51,528	47,000	47,000	47,000
Professional services	95,095	129,000	129,000	130,000
Office administration	206,701	201,600	141,200	162,500
Total Expenses	1,980,128	2,154,000	2,184,000	2,330,000
Recoveries	133,406	129,000	159,000	130,000
Net Expenses	\$ 1,846,722	\$ 2,025,000	\$ 2,025,000	\$ 2,200,000

	Actual 2001-02	Budget 2002-03	Forecast 2002-03 (Note 2)	Preliminary Budget 2003-04
Staff - Full Time Equivalent	25.4	26.6	26.6	26.6

Note 1 - Budget for the year ended March 31, 2002 is presented on page 16 of this Report.

Note 2 - As of December 31, 2002

With these resources, the Office will audit the financial statements and review the revenue estimates of the Province of Nova Scotia, as well as audit the financial statements of 19 other government organizations. In addition, it will perform 18 broad scope and information technology audits in 2003.

The Office's major expenditure relates to salaries and benefits, which represents approximately 87% of the Office's forecasted net expenses for 2002-03. All but three staff members are directly involved in providing audit services. Office administration (including office rent) is forecasted to be 7% of net expenses.

The preliminary budget for 2003-04 shown above is based on the budget target provided to the Office by Treasury and Policy Board on January 27, 2003. This budget permits the Office to operate with the same staff complement as in 2002-03, but does not enable any expansion of audit coverage as described under Priority I on page 25. The Office will continue to communicate with government to attempt to acquire the additional resources needed to carry out this plan.

The final approved budget for 2003-04 may differ from the figures above when government makes its final budget decisions in February or March 2003.

LINKAGES/PARTNERSHIPS

The Office partners or otherwise works with other organizations in the performance of its work.

- The Office has participated with other legislative audit offices (i.e., Auditors General) in the performance of audits of entities which do business in multiple jurisdictions, and in cases where there are similar government operations in various jurisdictions and there would be efficiency gained from audit offices coming together to plan or conduct such assignments. The Office completed the audit of 67 health performance indicators reported by the Department of Health on September 30, 2002. In September 2000, all of the First Ministers made a commitment, for the first time, to issue comparable performance indicator reports which were to be verified by a third party. All jurisdictions requested their legislative auditors to perform the verification. The Office worked closely with its counterparts in all other Canadian jurisdictions to jointly plan and conduct these audits.
- The Office engages private sector public accounting firms to conduct certain financial statement audits on behalf of the Auditor General. Such audits are supervised by the Office, and audit opinions expressed are those of the Auditor General.
- Accountants, consultants and specialists are occasionally hired on a contract basis to assist with audit assignments performed by the Office.
- The Auditor General works closely with his counterparts in other jurisdictions through the Canadian Council of Legislative Auditors. The Office has worked closely with the Canadian Institute of Chartered Accountants in addressing common issues of concern and the development of public sector auditing and accounting standards. The Auditor General has worked closely with CCAF-FCVI Inc. in its efforts to improve public sector accountability, governance and management.
- On occasion, the Office has partnered with government Internal Auditors on assignments.

The Office continues to seek partnership opportunities where it would improve the quality and efficiency of our work.

*Appendix I***AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17****SECTION 8**

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

- (a) accounts have been faithfully and properly kept;
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;
- (c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;
- (d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and
- (e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

- (1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.
- (2) The report forms part of the public accounts and shall state
 - (a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and
 - (b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.
- (3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

- (1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;
 - (b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;
 - (d) an expenditure was not authorized or was not properly vouched or certified;
 - (e) there has been a deficiency or loss through fraud, default or mistake of any person;
 - (f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or
 - (g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.
- (2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.
- (3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).
- (4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.
- (5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.
- (6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

- (1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.
- (2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

- (a) the accounts of an agency of government; or
- (b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

- (c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and
- (d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

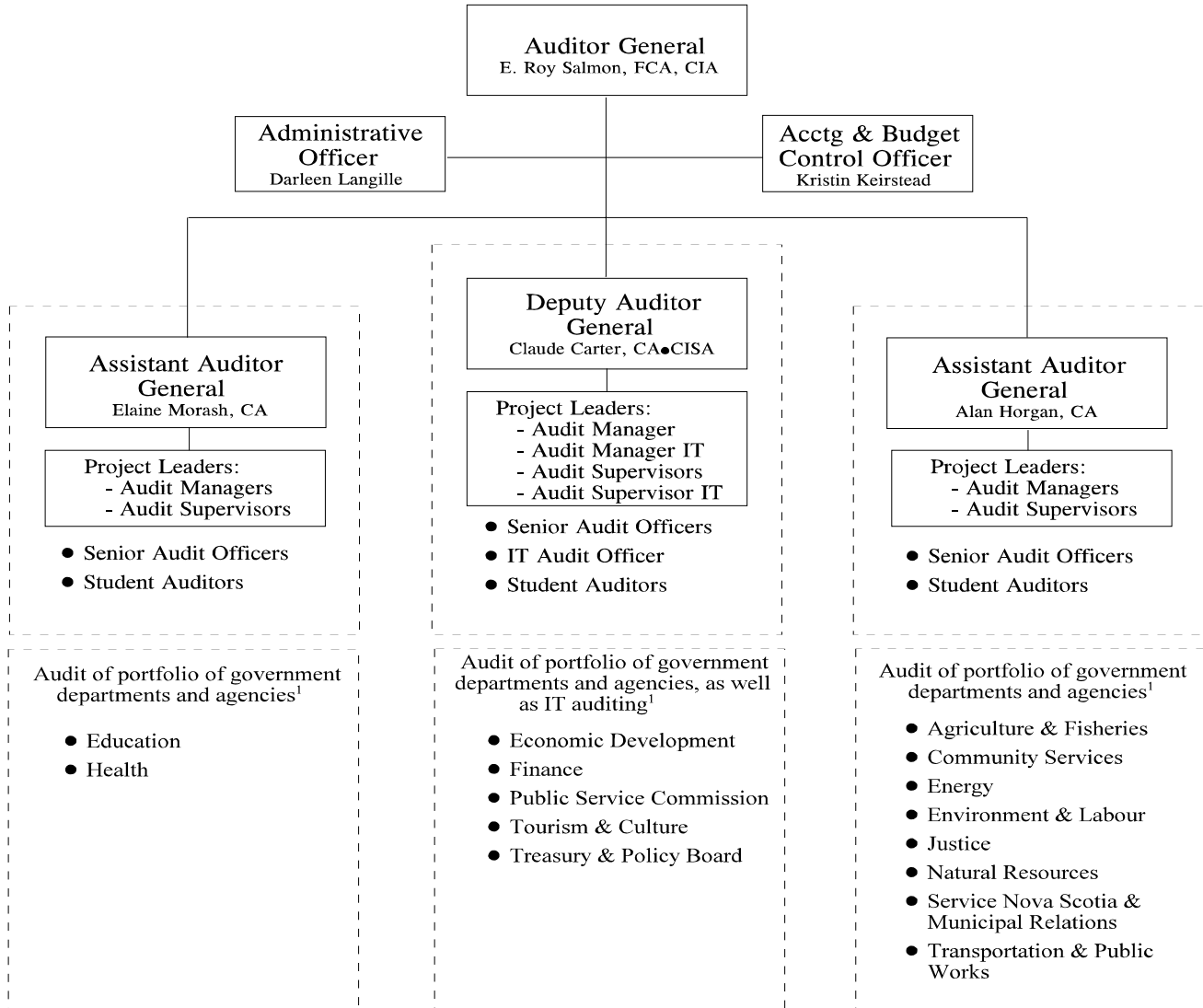
and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

- (1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall
 - (a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and
 - (b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.
 - (2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.
-

ORGANIZATION CHART

OFFICE OF THE AUDITOR GENERAL OF NOVA SCOTIA



Note 1 - Portfolios include government agencies, boards, commissions, crown corporation, as well as organizations receiving government assistance, which have accountability to a member of Executive Council responsible for the below noted departments.

*Appendix III***STAFF OF THE OFFICE OF THE AUDITOR GENERAL****As at December 31, 2002**

Auditor General	E. Roy Salmon, FCA, CIA	
Deputy Auditor General	Claude Carter, CA●CISA	
Assistant Auditors General	Alan Horgan, CA	Elaine Morash, CA
Audit Managers	Angela Cook, CMA	Stephen Lacusta, CA
	Ronald Edmonds, CGA, CISA	Roger Lintaman, CA
	David Hicks, FCGA	Terry Spicer, CMA
Audit Supervisors	Dianne Chiasson, CGA	Joseph Lappin, CA●CISA, L.L.B.
	Evangeline Colman-Sadd, CA	Scott Messervey, CA
	Anne-Marie Fraser, CMA	Ann Ryan, CA
	Douglas Hendsbee, CA	
Senior Audit Officers	Andrew Atherton, CA	Michael MacPhee, CA
	Jan Bremner, CA	Janet White, CA
	Joel Forbes, CA	
Information (IT) Support Audit Officer	Linda Rose	
Student Auditors	Jana Button	David Young
	Quentin MacKay	
Support Staff	Kristin Keirstead	Darleen Langille

*Appendix IV***OFFICE OF THE AUDITOR GENERAL
SALARY RANGES****As at December 31, 2002**

Position	Salary Range¹
Senior Management	\$84,508 - \$116,716
Audit Managers and Supervisors	\$51,585 - \$70,827
Senior and IT Audit Officers	\$37,687 - \$49,250
Student Auditors	\$30,671 - \$36,422
Support Staff	\$34,611 - \$39,489

Note 1 - Salary ranges represent the range of salaries of incumbents in these employment categories, not including employer's cost of benefits.

Note 2 - Salaries for individual staff are reported in the Province of Nova Scotia Supplement to the Public Accounts.

Appendix V

**OFFICE OF THE AUDITOR GENERAL
2003 PLANNED AUDITS**

Non-discretionary Audits and Reviews

Audit Entity	Type of Assignment
Additional appropriations	Compilation
Atlantic Provinces Special Education Authority	Financial Statement Audit
Cash and other losses	Compilation
Fisheries and Aquaculture Loan Board	Financial Statement Audit
Government's Consolidated Financial Statements	Financial Statement Audit
Government's Revenue Estimates	Review
Members' Retiring Allowances Act Account	Financial Statement Audit
Nova Scotia Farm Loan Board	Financial Statement Audit
Nova Scotia Gaming Foundation	Financial Statement Audit
Nova Scotia Housing Development Corporation	Financial Statement Audit
Nova Scotia Primary Forest Products Marketing Board	Financial Statement Audit
Nova Scotia Talent Trust	Financial Statement Audit
Public Trustee Trust Funds	Financial Statement Audit
Upper Clements Family Theme Park Limited	Financial Statement Audit

Audits Contracted with Private Accounting Firms

Audit Entity	Type of Assignment
Industrial Expansion Fund	Financial Statement Audit
Nova Scotia Crop and Livestock Insurance Commission	Financial Statement Audit
Nova Scotia Gaming Corporation	Financial Statement Audit
Nova Scotia Harness Racing Incorporated	Financial Statement Audit

Nova Scotia Innovation Corporation	Financial Statement Audit
Nova Scotia Legal Aid Commission	Financial Statement Audit
Nova Scotia Teachers' Pension Fund	Financial Statement Audit
Public Service Superannuation Fund	Financial Statement Audit
Sydney Steel Corporation Superannuation Fund	Financial Statement Audit

Discretionary Assignments

Audit Entity	Type of Assignment
Community Services - Housing Services Division	Broad Scope Audit
Education - accountability of Regional School Boards	Broad Scope Audit
Education - post-secondary education audit and control environments	Broad Scope Audit
Energy - accountability, compliance and economic benefits	Broad Scope Audit
Finance - treasury management ¹	Broad Scope Audit
Finance - SAP audit and control ¹	IT Audit
Finance - tangible capital asset planning and control process	Broad Scope Audit
Health - medical payments and other insured programs	Broad Scope Audit
Health - IWK-Grace Health Centre	Broad Scope Audit
Health - long-term care and single entry access	Broad Scope Audit
Health - District Health Authorities 1, 2, and 3	Broad Scope Audit
Justice - Court Services Division	Broad Scope Audit
Multiple departments - alternative procurements	Broad Scope Audit
Multiple departments - travel expenses	Broad Scope Audit
Multiple departments - information protection and security ¹	IT Audit
Nova Scotia Innovation Corporation	Broad Scope Audit
Nova Scotia Municipal Finance Corporation	Broad Scope Audit
Transportation and Public Works - highway safety	Broad Scope Audit

Note 1 - Multi-year initiatives

Contact the Office of the
Auditor General

1888 Brunswick Street
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Halifax, Nova Scotia
B3J 3J8

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Fax: (902) 424-4350
E-mail: langildm@gov.ns.ca