

AUDITOR GENERAL

1996 ANNUAL REPORT

*A Review of the Activities
of the Office*

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1996 Annual Report of the Auditor General



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Auditor General's Comments

Auditor General's Comments



This year marks the 20th anniversary of the enactment of the *Auditor General Act* in 1976. The Legislative Assembly, recognizing the need for an auditor who served the Legislature and the people of the province, appointed British Columbia's first Auditor General of the modern era, Erma Morrison, in the Fall of 1977. Until then the Province had been one of the few jurisdictions with the Westminster model of democratic governance to be without such a position.

I say the "first Auditor General of the modern era" because British Columbia had such an officer for a brief period in the early 1900s. However, the appointment process at that time was quite different than it is today and I understand the person selected for the office happened to be the brother-in-law of the Premier of the day. When an election was held a few years later and an opposing party elected sufficient members to form the government, the new Premier, and the auditor as well, had an awkward predicament. Government decided, perhaps because

it would have been difficult to discharge the incumbent without specific cause, to abolish the position of Auditor General. This story is interesting history, but it also demonstrates rather poignantly the critical need for auditor independence.

This annual report summarizes the activities and accomplishments of my Office over the past fiscal year. Because the 20th anniversary of our legislation is a significant milestone, it also includes some retrospective information.

Our Record of Service

Financial Auditing

For the first year or two after the Office was formed, our work focused exclusively on providing independent opinions on the financial statements of the government and some of its related organizations, and on other aspects of government's financial performance. Our annual reports to the Legislative Assembly were based on this work. We continue to have a strong interest in the financial performance of government and to devote the majority of our audit effort to these matters.

I believe that the work of the Office has contributed significantly to a substantial improvement in government financial management and reporting over the last 20 years.

Soon after our Office was formed we strongly urged a complete overhaul of the statutes governing the administration and control of the financial affairs of the province. At the time, provisions of the *Financial Control Act* were basically unchanged from 1917 and no significant financial control amendments had been made to the *Revenue Act* since 1932. By 1981 these outdated statutes were replaced by the *Financial Administration Act*. Now 15 years have passed since this legislation was enacted, and I am again urging government to update it to reflect significant developments in financial management and accountability that have occurred since 1981.

Through the years, we have worked closely with the Canadian Institute of Chartered Accountants, the professional body that sets accounting and auditing standards for both the private and public sectors in Canada. We supported the Institute in establishing a Public Sector Accounting and Auditing Board to focus exclusively on the public sector. We have also contributed to government decisions to upgrade its financial management and reporting to reflect changes in accounting and auditing standards as they have occurred.

Today we continue to influence the way government reports on its finances, and the way it manages public funds. This year, for the first time, government produced an annual report—as Volume 1 of the Public Accounts. In September 1995 government decided to expand its financial reporting entity. As a result, its financial statements now provide a more complete picture of government finances by including about 250 additional organizations like health and educational organizations. Additionally, government will be recording physical assets in its financial statements, which will facilitate the full program costing we have been advocating.

Performance Auditing

Shortly after the Office was formed it began to undertake performance audits. These audits examine whether money is being spent wisely—whether value is received for the money spent.

Over the last 16 years the Office has released a significant number of audit reports that focused on specific aspects of organizational or program performance. We conducted these audits using the direct reporting approach, whereby auditors assess performance directly and report on management's value-for-money performance together with an audit opinion on that performance. The findings and recommendations of these audits have been used by managers to enhance public sector administration in British Columbia.

More recently my Office has been encouraging government to measure and report on its own organizational and program performance. Although managers are expected to manage so that value for money is achieved, there is no legislation or established tradition that requires them to report on this important aspect of their performance. Consequently, managers in the British Columbia public sector, and in other jurisdictions, have not been reporting on their organizational and program performance.

To change this situation members of governing bodies, public sector managers, and their auditors have been collaborating to develop operational performance measurement and reporting principles and practices. My Office has taken a prominent role in initiatives designed to bring about enhanced organizational and performance reporting in British Columbia. We are pleased to be joined in our efforts by legislators and government managers.

Although these initiatives are not yet complete, I believe that government's acceptance of the concept of measuring and reporting on its own operational performance is a notable development. Holding government managers accountable for the results they achieve, and for the cost-effectiveness of their programs, will sharpen the focus of their attention on these aspects of their performance. If the work underway can deliver on its potential, public sector performance and accountability should be improved and people's confidence in government enhanced.

Compliance Auditing

Several years ago, my Office began focusing more specifically on compliance issues. Our compliance audits assess whether or not government managers and others are complying with legislative and related authorities, including codes of ethics or conduct. While sound financial management and the achievement of program results are important in government, the manner in which those results are achieved is also important. Government has to carry out its activities within the scope of the authorities established for the proper conduct of public business.

Over the last several years, my Office has reported the results of numerous compliance audits. In many cases we found need for improvement, and recommended changes be made. The Public Accounts Committee, which reviews our reports, has accepted our recommendations and supported them in its own report to the Legislative Assembly.

Our Future Direction

As an Office we take pride in our past achievements. We also recognize that recent developments in public sector administration, accountability, and auditing require us to alter the way we fulfill

our role, by adjusting the services we provide and the way we provide them. In my 1995 Annual Report I reported that we were in the process of finalizing a strategic plan to guide the activities of the Office for my second term. During the past year we completed our *1996/1997 – 2000/2001 Corporate Plan* and made adjustments to our strategic directions, key objectives, and planned courses of action.

Our focus remains on performing audits—and overseeing those conducted by private sector auditors—of the three key elements of government accountability and performance: financial, value-for-money, and compliance and ethical issues. We provide the assessments and advice that result from these audits to the Legislative Assembly and the people of British Columbia.

My Office is also striving for an effective accountability relationship between the Legislative Assembly and government. I believe that government reporting information on its own performance, together with independent audit opinions, is the best way of meeting accountability responsibilities. However, government does not yet provide accountability information on certain key elements of its performance. Therefore our plan calls for the Office to continue working with legislators and government managers to improve the completeness and usefulness of accountability information provided by government.

In my Annual Report last year, I indicated a desire to be able to report this year that politicians, public servants, and I had reached agreement on an appropriate, comprehensive accountability framework for the whole of government, and that implementation was underway. I am pleased to report that agreement has been reached on the accountability concepts that should be used, and that government has set out its plan and begun to implement these concepts.

As government accountability reporting is broadened, legislators, the public, and other users of information provided by government will require assurances that the information is fair and reliable. Therefore my Office, with assistance from private sector auditing firms, will begin attesting to the enhanced performance information as it becomes available. We will be working over the next few years with other members of the auditing community to develop auditing standards and procedures that permit such opinions to be offered.

This does not mean that we will discontinue our direct reporting audits, because I believe a certain amount of direct auditing will always be warranted. As government provides more complete information on its performance, the focus of our direct reporting audit work will shift to improving government performance in high risk or problem areas.

Our direct reporting audits will continue to cover a wide range of topics. In the past we have undertaken several audits that examined natural resource and environmental issues. The discussions we have had with various interested parties in developing our corporate plan confirmed that British Columbians have an interest in environmental practices and sustainable development matters, so we will continue our emphasis on this aspect of government performance.

Our plan recognizes the need for the Office to be an effective, well-performing, and accountable organization. In the work we have done to strengthen the accountability relationship between the Legislative Assembly and government, we have encouraged government organizations to report comprehensively and publicly on their performance. We believe our Office should abide by the same accountability principles and requirements as we advocate for others.

However, as is the case with many other public sector organizations, we have not yet established measures to evaluate the impacts of our work, or the processes to gather the information needed to make such judgments. We have much anecdotal evidence to suggest we are having significant positive impacts, but rigorous data are not yet available. We believe it is possible to report more comprehensively on the results of our work, and are committed to identifying and developing measures for assessing the effects of our auditing and related activities.

We intend, in consultation with our colleagues in legislative auditing offices across Canada and throughout the world, to develop measures of our overall impacts, find methods to capture the necessary information, and report it.

In anticipation of providing more comprehensive accountability information in future, we have revised the structure of this annual report to focus more on those things we set out to achieve. Future annual reports will include increasing amounts of performance information.

New Auditor General Act

Many significant developments have taken place in public sector accountability and auditing over the past 20 years. The nature and extent of these developments have created a need to update the current *Auditor General Act*. The Act requires substantial revisions to enable the Auditor General to provide the Legislative Assembly with the audit and related services it now requires.

We recognized the need for new legislation several years ago and drafted a new *Auditor General Act*. The draft legislation has been discussed exhaustively with senior government officials including

several Ministers, and also with members of other political parties represented in the Legislative Assembly. The new Act is ready for presentation to the Assembly and I will be vigorously pursuing its introduction into the House and subsequent enactment.

I reported last year that my Office has entered into a Memorandum of Understanding with the Minister of Finance and Corporate Relations with respect to the appointment of auditors and charging of audit fees. This Memorandum is intended as an interim step, prior to the enactment of the new *Auditor General Act*, to give me, as the Legislative Assembly's representative, an ability to influence the audit process applied in the British Columbia public sector. We have started to implement the provisions of the Memorandum, and I believe the changes that are occurring will serve legislators, the public, and government well. However, several important provisions included in the proposed *Auditor General Act* are not yet in place.

The past year has been an active one. It included work on many new areas and issues as well as regular ongoing work. I wish to thank the officers and staff of the ministries and other government organizations we have dealt with in the past year for their assistance and cooperation. I also thank the private sector auditing firms for their cooperation in carrying out the audit work and in implementing new auditing arrangements provided for by the Memorandum of Understanding. Finally, I extend my sincere appreciation to the staff of my Office for their diligence and professionalism in assisting me to discharge my duties to the Legislative Assembly and public.

The coming year will be a busy and challenging one for the Office. The recent provincial election saw many new members elected to the Legislative Assembly, and the affairs of the province put in the hands of a new government. Since the election, I have been meeting with these people to explain the role of my Office and to establish a productive working relationship with them. I believe my Office will continue to contribute significantly to public administration and governance in the province, and to benefit all British Columbians.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
July 1996



Role and Goals of the Office

Our Role

Auditing for Better Public Sector Accountability and Performance

Government today affects the lives of its citizens through a wide range of social and economic activity. For this reason, people have the right to be kept informed about what their government intends to achieve and what it has actually accomplished. Put another way, government must be accountable to the citizens it serves.

The challenge, however, is that government is large and complex, and the intended results of programs are not always easily explained. Even though the public routinely receives extensive information on government programs and activities, most British Columbians still do not have a clear idea of how well their government is performing at any given time.

Accountability is a relationship between two parties. In the case of government, the contract is between the public and their government: the public gives government the responsibility to govern and manage public resources; and government in turn is accountable to the public through the Legislative Assembly for its performance. This concept is fundamental to our democratic system. It establishes the right of a citizen to know what government intends to do and whether it is meeting its goals.

The Office of the Auditor General provides a critical link in the chain of public accountability—a role that is both unique and vital to the democratic process of responsible government. The Office's role is to assist the Legislature in overseeing the management of public money, by providing independent assessments of, and advice about, government accountability and performance.

As an officer of the Legislature, appointed by the Lieutenant Governor on the recommendation of the Legislative Assembly, the Auditor General is independent of government and in a position to make impartial assessments of government accountability and performance. The Auditor General is non-partisan and objective, reporting to the Legislature as a whole.

To meet the duties assigned under the *Auditor General Act*, the Auditor General oversees the work of a professional auditing staff, as well as using the assistance of private sector auditing firms. Our Office, which has complete independence in determining what to audit and what to report, is responsible for auditing most of government, including its ministries, Crown corporations, and other organizations. In exercising this responsibility, we stay attentive to the needs, expectations, and priorities of the Legislature. At

The Office of the Auditor General pursues four goals:

- to contribute to an effective accountability relationship between government and the Legislative Assembly;
- to assess whether the accountability information provided by government to the Legislative Assembly and the public is fair and reliable;
- to assess directly, and provide advice on, government performance as required to meet the needs of the Legislative Assembly and the public; and
- to ensure the Office is an effective, well-performing organization.

the same time, we remain open, responsive, and aware of the needs and expectations of public sector managers so that we can provide sound and practical advice and recommendations for administrative improvement.

The Auditor General's reports provide positive assessments where warranted and also highlight issues requiring the attention of the Legislature or government, accompanied by recommendations that assist government organizations to improve their management and performance.

We achieve these goals by auditing, assessing, and providing advice for each of the three key elements of government accountability and performance:

- financial;
- organizational and program; and
- compliance and ethical issues.

As audits are completed throughout the year, the Auditor General provides reports to the Legislative Assembly and the public. In turn, the Legislative Assembly usually refers these reports to one of its standing

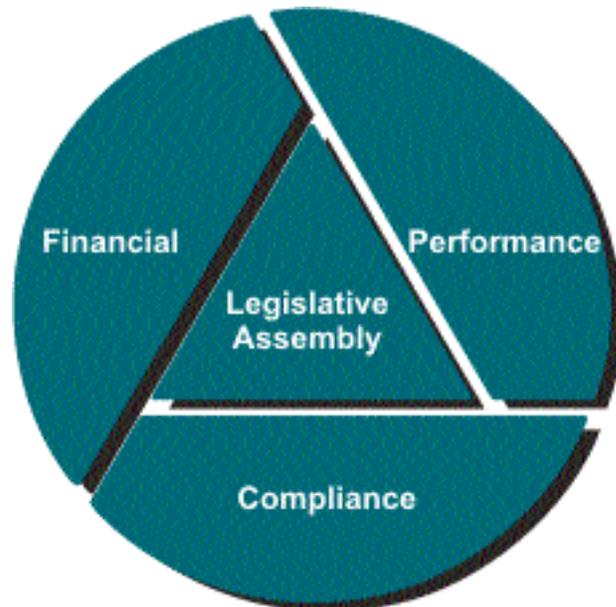
committees, most often the Public Accounts Committee. The Office supports the Public Accounts Committee and other committees by providing briefings that assist committee members in their evaluation of the areas identified for change and improvement as well as those areas that are achieving intended outcomes. The committees analyze and debate the reports and, where appropriate, make recommendations.

Supporting the Public Accounts Committee

In British Columbia, the Legislative Assembly plays an important role on behalf of the public in holding government accountable for its performance. The Assembly carries out its review of government performance in Question Period, in debates before the House, and through a system of standing committees.

The Public Accounts Committee (PAC) is a means used by the Assembly in British Columbia, as in other parliamentary democracies, to review the accountability and performance of government. In

AUDITOR GENERAL UNDERTAKES THREE TYPES OF AUDITS ON BEHALF OF THE LEGISLATIVE ASSEMBLY



Financial Audits

Financial audits provide independent assurance that the financial information provided to the legislature by the government is credible, and that government manages its financial affairs with integrity using sound financial controls.

Performance Audits

Performance audits examine whether public money is spent wisely by government—whether value is received for the money spent. They look at the organizational and program elements of government performance and consider whether government has achieved something that needed doing at a reasonable cost.

Compliance Audits

Compliance audits provide an assessment as to whether or not legislative and related authorities, including codes of ethics or conduct, are being complied with, in all significant respects.

British Columbia, the PAC is an active committee that meets and reports regularly to the Legislative Assembly. The Auditor General and staff of the Office assist the committee in its deliberations by attending its meetings, providing a summary of the findings and recommendations of each audit, and responding to questions raised by committee members.

The committee, made up of elected members of the main political parties, is empowered to examine and inquire into matters

referred to it by the Assembly. Matters most commonly referred to the PAC are the Public Accounts of the Province, audit reports issued by the Auditor General, and applications for the retention and disposal of government documents.

During the 1995/96 year, the committee focused on two areas. First, the committee met on a number of occasions between April and July 1995 while the House was in session (Sessions 4 and 5 of the 35th Parliament) to consider the audit reports issued by the Office.

These included audits that examined each of the key elements of government performance:

Financial

- Report on the 1993/94 Public Accounts (1994/95: Report 3)

Organizational and Program

- Psychiatrist Services (1993/94: Report 5)
- Transfer of Patients from the Riverview Hospital to the Community (1993/94: Report 5)
- Purchasing in School Districts (1994/95: Report 1)
- Provincial Agricultural Land Commission (1994/95: Report 2)
- Management of Government Debt (1994/95: Report 4)

Compliance and Ethical Issues

- *Elevating Devices Safety Act* (1994/95: Report 5)
- *Travel Agents Act* (1994/95: Report 5)
- *Financial Administration Act: Guarantees and Indemnities* (1994/95: Report 5)
- *Land Tax Deferral Act* (1994/95: Report 5)

At the conclusion of the 5th session of Parliament, the committee made its report to the Legislative Assembly, supporting the findings of the Auditor General, and including 15 recommendations to government arising from the audits.

The second focus of the PAC was a departure from previous practice. In July 1995, the committee was authorized to meet while the Assembly was in recess—a precedent for the committee in British Columbia. It was asked by the Legislative Assembly to review the joint report of the Auditor General and the Deputy Ministers' Council, entitled *Enhancing Accountability for Performance in the British Columbia Public Sector*.

In April 1996, the committee issued a second report, which was tabled and adopted by the Legislative Assembly. That report recommended fundamental changes in the way government accounts for its performance and in the way the Legislative Assembly scrutinizes that performance—two key elements of the accountability relationship between government and the Legislative Assembly.

We have worked closely and cooperatively with the PAC during the past year. We believe this relationship has been beneficial and we will continue to offer our support to the PAC and other standing committees of the Assembly during the coming year. We also believe that the committee's ability to meet when the Legislative Assembly was not in session enhanced its work, and we urge the Legislative Assembly to include this provision in the terms of reference of legislative committees in future.

A TYPICAL PUBLIC ACCOUNTS COMMITTEE MEETING

It is 8:00 Tuesday morning, and members of the Select Standing Committee on Public Accounts are meeting in the Douglas Fir Room in British Columbia's Legislative Buildings. The Chair of the committee, a member of the Opposition, calls the weekly meeting to order. In attendance are seven members of government (including the Deputy Chair) and four members of the Opposition. Sitting with the committee is the Auditor General and his senior staff, as well as representatives from the ministries of Health and Finance. Closely observing from the back of the room are members of the public and the media. From there, they can see the clerks from the Hansard office who are taping the morning's proceedings and who will later transcribe them for the public record.

The focal point of today's meeting is the Auditor General's report on psychiatric services — services funded by the Ministry of Health. Following a short introduction by the Auditor General, a senior member of his staff begins a presentation—taking the committee step-by-step through the audit findings and recommendations. At the conclusion, the Chair invites officials from the ministry to comment. In their briefing to the committee, ministry officials respond to the Auditor General's concerns, explaining what the ministry has done and what actions ministry staff intend to take in the future.

Clearly, the committee members are anxious to learn more, as they quiz the ministry officials and seek clarification of certain points from the Auditor General and his staff. Some members look for explanations; others ask probing questions. A general discussion ensues among members of the committee as they bring forward the concerns of their constituents and the public at large.

While the atmosphere is sometimes highly charged, this meeting, like most, is lively yet harmonious. Despite political differences among members of the committee, they work together in representing the interests of the public. This is in keeping with the non-partisan tradition of legislative committee work.

Almost before anyone realizes, it is 9:30 a.m. The Chair of the committee accepts a motion to adjourn. The following week's meeting will provide the committee with further insight into the workings of government. At the conclusion of its series of meetings, the Public Accounts Committee will summarize its discussions and make its own recommendations to the Legislative Assembly about improvements that need to be made to government programs.

Our Goals

The Office has developed a *1996/1997 – 2000/2001 Corporate Plan* which sets out the Office's strategic directions, key objectives, and main courses of action for the next five years. It updates previous plans and has been developed following consultation with our staff and those who rely on the work of the Office.

Recent developments in public sector accountability worldwide, and the introduction of management changes in British Columbia in reaction to these developments, make this a particularly opportune—as well as challenging—time to reassess the environment in which we now conduct our business.

As an Office, we take pride in our past achievements. Nevertheless, in formulating our corporate plan we recognized that the recent developments in public sector administration, accountability, and auditing were going to require us to alter how we fulfill our role, what services we provide, and how we provide them.

The Office is committed to providing legislators and the public with services that meet their current needs. Therefore, one of our objectives is to have enacted a new *Auditor General Act* that provides the legislative base to allow the Office to continue serving those who rely on our work.

We will also continue to preserve our independence, which is crucial to our credibility as an Office. Our independence from those we audit allows us to be independent in carrying out our work and to earn the trust and confidence of those who rely on us and benefit from our work. Our value as an Office comes from our ability to serve the public interest fairly, professionally, and independently.

Our Mission

To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice with respect to government accountability and performance.

Our Values

The Office of the Auditor General of British Columbia is committed to:

- preserving its *independence*, which is crucial to its credibility, and using it in the public interest;
- exercising *due care* in all aspects of its work in order to provide accurate, reliable assessments and sound advice; and
- striving to maintain *public trust* by conducting its work fairly, professionally, and with integrity.

STRATEGIC DIRECTION 1 – To contribute to an effective accountability relationship between government and the Legislative Assembly.

Key Objectives

- To have accountability principles and an accountability framework developed that are accepted by Members of the Legislative Assembly and by government.
- To have the accepted accountability principles and framework implemented by the Legislative Assembly and government.
- To have legislation enacted that requires the Auditor General to report to the Legislative Assembly on the range of accountability information included in the accepted accountability principles and framework.
- To have generally accepted, comprehensive accountability principles for governments across Canada.

Courses of Action

- Continue to work with members of the Public Accounts Committee and with government to complete the accountability principles and framework for all of government, and have the principles and the framework accepted by Members of the Legislative Assembly and by government.
- Monitor government progress in implementing the accountability principles and framework, advising on implementation as required and appropriate.
- Support the Legislative Assembly in implementing the accountability principles and framework and any consequential changes to the Legislature's structures or processes.
- Work with other Canadian legislative auditors and with professional bodies to have comprehensive and appropriate government accountability principles that are generally accepted across Canada.

STRATEGIC DIRECTION 2 – To assess whether the accountability information provided by government to the Legislative Assembly and the public is fair and reliable.

Key Objectives

- Continue to attest to the fairness and reliability of the accountability information that is provided by the government to the Legislative Assembly and the public.
- As government provides more complete accountability information to the Legislative Assembly and the public, as called for by the accepted accountability principles and framework, attest to the fairness and reliability of that information.
- Ultimately attest to the fairness and reliability of government representations to the Legislative Assembly and the public in respect of the full range of accountability information required by the accepted accountability principles and framework.
- To have auditing standards that are generally accepted across Canada for auditing government representations in respect of the range of accountability information required by government accountability principles that are generally accepted across Canada.

Courses of Action

- Continue to attest to the fairness and reliability of the accountability information that is provided by government to the Legislative Assembly and the public.
- Monitor government's progress in providing more complete accountability financial; organizational and program; and compliance and ethical issues.
- Develop sound methods for auditing government accountability information with respect to organizational and program performance, and compliance and ethical issues.
- Attest to the fairness and reliability of the enhanced accountability information reported publicly by government as it becomes available.
- Work with other Canadian legislative auditors and with professional bodies, to develop and/or maintain auditing standards that are generally accepted across Canada for auditing government representations in respect of the range of accountability information required by government accountability principles that are generally accepted across Canada.

STRATEGIC DIRECTION 3 – To assess directly, and provide advice on, government performance as required by the Legislative Assembly and the public.

Key Objectives

- Continue to assess and report directly on those aspects of government performance where the accountability information provided by government to the Legislative Assembly is incomplete.
- As government provides more complete accountability information to the Legislative Assembly, as called for by the accepted accountability principles and framework, reorient the focus of direct reporting audits to improving government performance by providing advice in problem areas.

Courses of Action

- Assess and report directly on aspects of government performance that are of significance and interest to legislators and the public where adequate accountability information is not provided by government.
- Identify areas of government performance that are of interest to legislators and the public because they are high risk or problem areas.
- Assess directly government performance in the areas identified as high risk or problems, and provide advice.

STRATEGIC DIRECTION 4 – To ensure the Office of the Auditor General is an effective, well-performing organization.

Key Objectives

- Manage our financial affairs responsibly, with integrity, and using sound financial controls.
- Provide quality assessments and advice, efficiently produced, that lead to improved government accountability and performance.
- Conduct our work in a manner that meets public and professional standards of conduct.
- Develop and maintain appropriate accountability reporting by the Office.

Courses of Action

- Maintain sound financial management policies, procedures, and controls.
- Maintain a comprehensive and rigorous quality assurance program and effective project management processes.
- Maintain adherence to established codes of conduct.
- Provide the Legislative Assembly and the public with fair and reliable accountability information with respect to the Office's performance and results.

Performance of the Office

Strategic Direction 1: Improving Government Accountability

Current trends in public sector accountability call for governments to report publicly on a wider range of their performance than ever before, and for independent legislative auditors to attest to the fairness and reliability of governments' representations.

The government in British Columbia now provides certain accountability information publicly, primarily related to financial performance, and we attest to the fairness and reliability of that information. We foresee a day when government will report complete accountability information on the full range of government performance and auditors will attest to the fairness and reliability of that information.

A major challenge identified in our *1996/1997 – 2000/2001 Corporate Plan* is to establish a comprehensive accountability framework and generally accepted accountability principles that will guide the whole of government in reporting more fully on its performance. Such a framework would expand the focus of government reporting from process and activities to include intentions and results.

We intend to continue our pursuit of an effective accountability relationship between government and the Legislative Assembly and people of British Columbia. Over

the next few years we will work with legislators, government, and professional organizations to develop and implement comprehensive accountability principles related to the three key elements of government performance: financial; organizational and program; and compliance and ethical issues.

We are approaching our accountability work in a variety of coordinated ways. First, we are working with legislators and government, the primary parties to the accountability relationship, to establish a framework and general principles. This initiative is an umbrella project under which our other accountability work fits.

We are also undertaking work in each of the three key areas of government performance so as to develop more specific principles and practices. The nature of the work in each of these areas of performance is dictated by the current state of development. For example, principles and practices are much better developed for certain aspects of financial performance than other types of performance. Indeed, many financial accounting principles are already in place and generally accepted. Financial statements are now prepared and made available publicly by government as a whole,

and by its Crown corporations and other related organizations. In other areas, principles and practices are not as well developed, and therefore the work to establish these standards must start at a more fundamental level.

Accountability Principles and Framework Initiative

For several years, the Auditor General has been promoting the concept of government reporting comprehensive, results-focused accountability to the Legislative Assembly. A recurring theme throughout this work has been the public's right to know what government has achieved compared to what it intended.

The Auditor General has taken an active approach to addressing this issue. In 1994, the Office began developing general accountability principles and a comprehensive accountability framework that could guide all British Columbia governments in fulfilling their accountability obligations to the Legislative Assembly and the public. As the project unfolded and discussions began with Members of the Legislative Assembly and Deputy Ministers, it became apparent that they, too, were concerned about accountability. Most agreed that the time had come to measure and report comprehensively on the results of government performance and not simply on activities and money spent.

What developed was a unique collaboration of government, the Legislative Assembly, and the Office of the Auditor General to introduce

results-focused accountability reporting for government, including ministries, Crown corporations, and other related organizations. The results of this work are contained in two reports, issued jointly with the Deputy Ministers' Council: *Enhancing Accountability for Performance in the British Columbia Public Sector (June 1995)* and *Enhancing Accountability for Performance: A Framework and an Implementation Plan (April 1996)*. Both reports were endorsed by all provincial party leaders.

In the first report, the Auditor General and the Deputy Ministers' Council suggested that the governance process in British Columbia would be enhanced if government provided comprehensive accountability information on the three key elements of its performance: financial, organizational and program (also referred to as "value for money" or "performance"); and legal compliance, fairness, equity and probity (also referred to as "compliance and ethical issues"). Legislators and government were encouraged to focus more on results, identifying what is working, what is not, and where increasingly limited resources can be used most economically and effectively. Needed was a comprehensive accountability framework to guide government in reporting on its performance to the Legislative Assembly.

The first report was tabled in the Legislative Assembly in July 1995 and subsequently referred to the Public Accounts Committee. The committee met over several days to consider the report and hear from subject experts. In January 1996, the committee issued its own

report to the Legislative Assembly, endorsing the accountability initiative and making a number of recommendations on what accountability information government should report to the Assembly, how legislative committees should be structured and operated to hold government accountable, and how government spending estimates should be incorporated into the accountability process. In April 1996 the committee's report to the Legislative Assembly was tabled and formally adopted.

Over this past year, the Auditor General and the Deputy Ministers' Council have continued to work closely to make accountability for performance a reality. The Auditor General took the lead in developing a comprehensive, detailed accountability framework. The Deputy Ministers' Council concentrated its efforts on identifying how government's performance management system might encourage the achievement of, and accountability for, results. Details of this work are contained in the second joint report, *Enhancing Accountability for Performance: A Framework and an Implementation Plan*.

The report sets out two accountability frameworks: one for use government-wide or sectorally for broad areas of government activity, such as the state of the environment; and one for the specific activities of ministries and Crown corporations. The frameworks are built around the general questions that government should seek to answer with accountability information. They

include the three key elements of government performance and focus attention on improved accountability for performance by requiring managers to set out what their plans are and then report on actual results.

The Public Accounts Committee has not yet had an opportunity to discuss the second report because it was issued so recently. We expect the committee will consider the report during its next series of meetings.

The government's commitment to the initiative, and to improving accountability, is evident from the section in the second report that lays out government's plan to implement the concepts included in the accountability framework. A significant part of the plan deals with establishing a performance management system that will assist government managers in improving performance and generating the performance information needed for improved accountability reporting. Putting this plan into action will require a fundamental change in the way government does its business. Consequently, full implementation is not expected to be completed for at least five years.

The development of an accountability framework and the commitment to implement performance-based management systems does not signify an end to the accountability initiative. The Auditor General, again working with government and legislators, intends to adapt the framework and extend its use to government-funded agencies. The results of this work will be reported to the

Assembly by March 1997. A further report, outlining the progress government has made in implementing improved accountability, will be presented to the Assembly by April 1997.

The Auditor General believes citizens will judge this initiative a success if they receive fair reporting about all of the key elements of government's performance, if managers are held accountable for achieving results and, more importantly, if it increases public confidence that government operates effectively and in the interests of its citizens. The success of this initiative will not be evident for a few years. Nonetheless, there have been some interesting achievements to date.

The support and involvement of the Legislative Assembly (through its Public Accounts Committee) and its willingness to consider reform of its own procedures are important early successes. The process has resulted in bringing together many, often disparate, parts of government—central agencies and many ministries and Crown corporations—to discuss issues of common interest and develop a common vision of what government should look like. A range of interested parties who would normally hold opposing views on many subjects have engaged in a collaborative process leading to change.

Another benefit arising from this process has been the development of a better understanding by all parties of one another's position and priorities, which has resulted in a much greater degree of trust. Also, through broad-based discussion, there

has been a firming up of the commitment to change.

The future success of the accountability initiative lies in the continuing close working relationship that has developed among legislators, government, and the Office of the Auditor General. Together we have a better chance of achieving our common desire: to be able to demonstrate to citizens whether the public sector is performing well and operating in the interests of the people of British Columbia.

Improving Accountability for Financial Performance

All government organizations are required by statute to prepare financial statements each fiscal year and to make them publicly available. Management of each organization is responsible for the preparation and integrity of these statements, using generally accepted accounting principles and policies.

One of our responsibilities when undertaking audits aimed at attesting to the fairness of financial statements prepared by management is to evaluate whether the basis of accounting used to prepare the statements results in fair presentation and disclosure. To assist us in making this evaluation, we compare the accounting principles and policies used by management in preparing the statements to those that are generally accepted in the public sector. The Canadian Institute of Chartered Accountants (CICA) has a key role in the setting of accounting standards in Canada.

In helping us to ensure that the financial statements of government and its related organizations are prepared using a basis of accounting that results in fair presentation, our Office participates actively in the standard-setting process of the CICA. We have also developed working relationships with management that allow us to influence the accounting policies selected for use in preparing financial statements.

We are pleased that this year government made a number of notable improvements in its financial accountability as recommended by our Office. One significant change is an expansion of the government financial reporting entity to include all organizations that are accountable for the administration of their financial affairs either to a minister of government or to the Legislature, and that are owned and controlled by government. Other changes include the decisions to record physical assets in the financial statements, report comprehensively on debt, report implicit expenditures in the statements, and record all government obligations in the financial statements. The inclusion of physical assets in the financial records should facilitate the full-costing of government programs as called for in the accountability framework.

Our Office has also been involved in a CICA initiative to develop criteria of control. This initiative is intended to develop guidelines for organizations to use in measuring and reporting on their control systems, including that for financial controls.

More detail on these matters can be found in the “Financial Auditing” section of this report.

Improving Accountability for Organizational and Program Performance

Government managers are clearly responsible for managing in a way that makes the best use possible of public funds, and are accountable for the prudent and effective use of the resources entrusted to them. However, in the past there has been no requirement for them to report on this important management responsibility. With few exceptions, there is neither legislation nor established tradition that requires public sector managers to report whether they have spent taxpayers’ money wisely.

Because government has not been required to evaluate and report whether it is achieving something worth doing at reasonable cost, no generally accepted way of measuring and reporting on this aspect of performance has been developed. Recently, however, we have been working with legislators and government to develop accountability principles and frameworks to underlie management reports on organizational and program performance.

Accountability Principles and Framework Initiative

This initiative, as described previously, is focused to a large extent on improving organizational and program performance measurement and reporting.

The second of the two reports on this work (*Enhancing Accountability for Performance: A Framework and an Implementation Plan*) sets out a basis for government to report on its value-for-money performance. The approach recommended would see government as a whole, including government organizations, set out what their plans are, and then report on actual results. Shifting the reporting focus of organizations to include intentions and results as well as process and activities will be challenging. We are working with government organizations and managers in a number of ways to assist in the development of the required techniques and practices.

Although it is too early to see the results of our accountability work in the area of organizational and program performance, events to date are encouraging. Legislators from all parties have indicated support for the concept, and the direction being taken has been endorsed by the Public Accounts Committee. Government has demonstrated its support by developing a plan to implement organizational and program performance management and reporting.

We believe it would be beneficial ultimately to have common accountability principles and frameworks for senior governments across Canada, just as there are now generally accepted principles and frameworks for financial reporting. Therefore, we have had preliminary discussions with other legislative auditors to determine whether they have an interest in working with us, along

with other interested parties, to develop a consensus across Canada about what constitutes appropriate organizational and program performance reporting.

The frameworks outlined in the published accountability reports emphasize results, but they also require management to report on certain process matters and on their organization's operational capacity to deliver consistently satisfactory results. Consequently, we have been participating in the CICA's initiative to develop criteria for use in measuring and reporting on control systems, including those for operational controls.

Effectiveness Initiative

Since 1990, our Office has been advocating use of the "Twelve Attributes of Effectiveness" framework as a means of enabling management in the public sector to assess the effectiveness of an organization or a program. Many government bodies have answered the call and adopted the framework for use in analyzing their performance.

Like any sophisticated tool, the framework takes training to be used to its full effect. We decided that if we wished to have organizations use the framework, we should be prepared to provide training and facilitation services for those who choose to use it. This is a departure from the traditional role of auditors and a move to a more proactive approach to bringing improvements to the public sector. Providing these services has been an exciting challenge for us.

We have provided numerous workshops and training and information sessions to various organizations involved in education, taxation, natural resources, social services, and other government functions. Feedback has been positive. Many participants tell us that they have gained a better understanding of strategic and management issues, and that the framework provides a constructive and forward-looking forum to deal with operational problems. From our point of view, the sessions provide us with an opportunity to acquaint staff and management with the idea of accountability to the Legislative Assembly, and to reinforce their awareness of the taxpayer as funder of the programs.

More detail on our efforts to improve accountability for organizational and program performance can be found in this report in the section on "Performance Auditing."

Governance Initiative

For an accountability regime to work properly, it is important that the responsibilities relating to governance are clear; that is, the parties involved in the governance process must know what their responsibilities and authorities are, who they are accountable to, and for what. The accountability process of Crown corporations is more complex than that of ministries because it involves not only government and the Legislative Assembly, but also a board of directors. Because this arrangement of shared responsibilities is at times complex and difficult to understand, our Office has embarked on a study of Crown corporation governance.

Governance has been defined as the directing and controlling of an entity's direction and performance. It encompasses the entire manner in which an entity is being run: ethics, values, strategies, systems, and accountability to government, the Legislative Assembly, and others. Good governance requires acting in the public interest, and answering for the actions taken.

The purpose of the Office's study (to be released September 1996) is to identify principles and develop guidelines for improving governance. In this way we believe the accountability of Crown corporations, and ultimately government, can be improved.

Improving Accountability for Compliance and Ethical Issues

Of the three key elements of government performance, the conceptual base for measuring and reporting on performance related to compliance and ethical issues is currently being developed.

The government plan to implement the accountability for performance framework calls for working groups to be established to pursue criteria for measuring and reporting on the compliance aspect of performance. We will be keeping abreast of developments as they occur and assisting government where possible and appropriate.

Our work with the CICA to develop criteria of control includes formulating those criteria to achieve compliance with legislative and related authorities.



Kathy Crawley, Project Leader

STAFF PROFILE

Kathy Crawley, a Project Leader in our Performance Audit Unit, was selected as the Victoria Area CA of the Year for her numerous volunteer activities. Kathy is a Lieutenant in the Willis Point volunteer fire department. Most of the callouts she attends involve giving first-response medical treatment. Kathy brings this experience to our Office as the coordinator for the Earthquake Preparedness Team and as an Occupational First Aid Attendant.

Kathy also devotes many hours of her spare time as a Girl Guide leader, a position she volunteered for after her daughters, Karissa and Lacey, joined Brownies. Several years ago, she earned her Camp Leader Certificate. In this role, Kathy spends part of her holidays each year running Guide summer camps, last year leading a unit to an international camp in Alberta.

Strategic Direction 2: Assessing Government Accountability Information

The government provides an array of accountability information, covering a variety of subjects in a variety of ways. However, auditors' opinions with respect to the fairness and reliability of this information have been limited almost exclusively to information on financial performance. Specifically, auditors traditionally have attested to the fairness of the financial statements of government and its related organizations.

The reporting of accountability information for the other key elements of government performance—organizational and program, and compliance and ethical issues—has not been required by legislation or accepted convention. Therefore, standards for measuring and reporting on these elements of performance have not emerged and the information that is made available publicly is incomplete, inconsistent, and often not in keeping with user needs. As a consequence, this information is not used to hold people accountable or to make decisions. In such circumstances, the costs of auditing the information have not been justified.

Assessing Financial Information

All government organizations are required by statute to prepare financial statements each fiscal year and to make them publicly available. The financial statements are prepared by management and responsibility for the integrity of the statements rests with management.

Independent auditors attest to the fairness of the financial statements of government and all of the related organizations included in the government financial reporting entity each year. Organizations are included in the government reporting entity if they are accountable for the administration of their financial affairs either to a minister of government or to the Legislature and they if are owned and controlled by government.

The Auditor General provides an audit opinion on two sets of government financial statements: government's Summary Financial Statements and the Consolidated Revenue Fund Statements.

The Auditor General is eligible to be appointed auditor of any Crown corporation or other

government organization. Auditor appointments can be made in one of several ways: by statute; by the Lieutenant Governor in Council; by the Minister of Finance; or by the board of the organization concerned.

In 1994/95, the Auditor General was the appointed auditor of 14 of the 42 Crown corporations and other government organizations included in the government reporting entity. Private sector auditing firms audit the financial statements of the remaining 28 government organizations. This group includes many of the larger Crown corporations.

The Office has agreed to have a Memorandum of Understanding with the Minister of Finance and Corporate Relations which provides the Auditor General with the ability to be involved in the audits of all government organizations in either a direct or an oversight capacity, and to report on the results of all audits to the Legislative Assembly. As a result, we plan to rearrange some of the auditing responsibilities over the coming years, although the overall proportion of work done by the Office and by private sector auditors will remain substantially the same.

The provisions of the Memorandum of Understanding will be particularly important over the next year as government expands the financial reporting entity, consistent with the recommendations of the CICA, to include approximately 250 more government organizations such as provincial hospitals, regional hospital districts, universities, colleges and institutes, and school districts.

The Office currently audits the financial statements of 13 of these organizations and entities related to them. The financial statements of the remainder are audited by private sector auditing firms.

In addition to the financial statement audits described above, the Office audits the financial statements of 14 trust funds comprising several pension funds, pooled investment portfolios and the Workers' Compensation Board.

When conducting audits of the financial statements of government and its related organizations, auditors may identify errors in accounting and identify opportunities for improving accounting systems, internal controls, and financial statement reporting. Such matters are brought to the attention of management when they are found.

Accounting errors are usually adjusted immediately by management before the statements are finalized. Issues of improved financial reporting are also normally dealt with expeditiously. In a few cases, management may disagree with our recommendation, or the amounts may be significant enough that we believe they should be brought to the attention of the Legislative Assembly or the board of directors or similar governance body.

In our *1995/96: Report 1 – Report on the 1994/95 Public Accounts* we noted that, for government, almost all significant issues have been dealt with. Still outstanding are our recommendations that government write-off as expenditures all loans made by the Consolidated Revenue

Fund to dependent organizations, adopt the CICA's recommendations on accounting for government transfers, and evaluate and record its liability for post-retirement benefits in its financial statements. For government organizations, all material issues were resolved.

In the Report on the Public Accounts we also reported that the audit opinions on all of the financial statements audited by the Office were issued without any reservations.

Assessing Information About Organizational and Program Performance

Although government is committed to providing comprehensive accountability information with respect to organizational and program performance, the information that has been available to date has not been complete and meaningful, and therefore has not warranted an independent audit attesting to its fairness and reliability.

The government's implementation plan, included in *Enhancing Accountability for Performance: A Framework and an Implementation Plan* (April 1996), calls for government to start making available comprehensive information on its organizational and program performance.

Consequently, our Office has been researching methods of auditing such information and attesting to its fairness. In this regard, we have completed a review engagement of performance information developed by a branch of a ministry and reported on the information to management. We will continue to develop, in concert with our legislative auditing colleagues and the auditing profession, appropriate auditing methods for these types of engagements so that when government and its related organizations begin to make reports available, we are in a position to audit them and attest to their fairness.

Assessing Information About Compliance and Ethical Issues

This aspect of public sector performance continues to be developed, and we will continue to monitor developments as they occur and will provide attestation opinions when warranted.

Strategic Direction 3: Directly Assessing Government Performance

Legislative auditors take two approaches to fulfilling their mandates. The first—referred to as *attestation*—is the provision of audit opinions as to the fairness of management's publicly reported accountability information on its performance. We believe that management reports on performance, along with independent audit, are the best way of meeting accountability responsibilities.

Where comprehensive management information on performance is not available, legislative auditors use another approach—referred to as *direct reporting*. In the absence of reports from management, the only practical way for auditors to fulfill their mandates is to gather essential management information and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have discharged their essential responsibilities.

We approach our work using the direct reporting approach where comprehensive accountability information is not yet available

from government. As indicated in our *1996/1997 – 2000/2001 Corporate Plan*, we will shift our emphasis to attestation reporting as government provides more complete accountability information. We believe a certain amount of direct reporting auditing will always be warranted, but we will re-focus this work to high risk or problem areas once the attestation approach is feasible.

Currently, we use the direct reporting approach in our financial auditing to review government financial controls. We also use this approach to provide information on certain other aspects of government's financial management. As well, most of our performance and compliance auditing is undertaken using the direct reporting approach. This work is conducted to the extent that time and resources allow.

Directly Assessing Financial Performance

During the course of audits that we carry out to be able to express an opinion on the fairness of an organization's financial statements, we often identify matters that may be of interest to

management. If we do, we make suggestions for improvements, and changes are often implemented while our audits are still under way.

When we think the issues identified will take some time to address or are worthy of more detail than we provide in our public report, we include them in a management letter to the government organization or, in the case of government, to the appropriate ministry or office. Significant issues are included in our reports to the Legislative Assembly. In our *1995/96: Report 1 – Report on the 1994/95 Public Accounts*, we noted a substantial backlog in assessing corporate capital tax returns, with a resulting loss of revenue to the Crown. As part of our audit process, each year we review the status of items identified in our management letters. Given the time required to implement change, we believe that government and its organizations are dealing adequately with the issues raised.

1995/96: Report 1 – Report on the 1994/95 Public Accounts

This report included direct assessments of the following five issues:

- Reporting of Provincial Debt
- Corporate Capital Tax Assessments
- New Corporate Accounting System
- Controls over Income Assistance Payments
- Controls over BC 21 Community Projects Program

Further details on these matters can be found in the “Financial Auditing” section of this report.

Directly Assessing Organizational and Program Performance

1995/96: Report 2 – British Columbia Ferry Corporation

The results of two performance audits in the Corporation were reported:

- Fleet and Terminal Maintenance Management
- Operational Safety

1995/96: Report 4 – Ministry of Finance and Corporate Relations

The results of one performance audit in the ministry were reported:

- Revenue Verification for Social Services Tax

Further details on these matters can be found in the “Performance Auditing” section of this report.

Directly Assessing Performance for Compliance and Ethical Issues

1995/96: Report 3 – Compliance-with-Authorities Audits

Five compliance-with-authorities audits were reported:

- Home Support Services
- Environmental Tire Levy
- Safeguarding Moveable Physical Assets: Public Sector Survey

WE ARE MUCH MORE THAN “BEAN COUNTERS”

While some people might think that our office is made up of narrowly focused “bean counters” who spend their time, well...counting beans, reality paints a very different picture.

The audit work we carry out involves far more than “checking the books.” An important way in which we add value to our audits is by providing government managers with recommendations on how to improve the effectiveness of their systems and practices. As well, we carry out special projects to investigate issues related to the management of public funds and the protection of public assets. Our aim is to improve the accountability of government and its overall performance for the benefit of the citizens of British Columbia.

To do the job properly requires professionals with knowledge, skills, and abilities that reach far beyond just accounting and auditing expertise. Our staff needs to be well-versed in public administration, political science, law, research methods, and general management. They also have to be skilled interviewers, negotiators, and communicators.

Although quite a few staff hold accountancy (CA, CMA, CGA) and management consulting (CMC) designations, these are often accompanied by university degrees in commerce, business, and economics. We also have staff with degrees in such diverse areas as nursing, health and public administration, law, social work, political science, psychology, education, criminology, philosophy, and library sciences.

The practical experience of our staff is wide-ranging, too. Some have worked in the private sector before joining the Office, and others have experience in the public sector in a variety of provincial, national, and international jurisdictions.

So, next time you meet one of our staff, put away your beans! You will find a highly skilled and diversified professional, concerned with providing value to government operations.

- ***Consumer Protection Act— Income Tax Refund Discounts***
- ***Financial Administration Act Part 4: Follow-up***

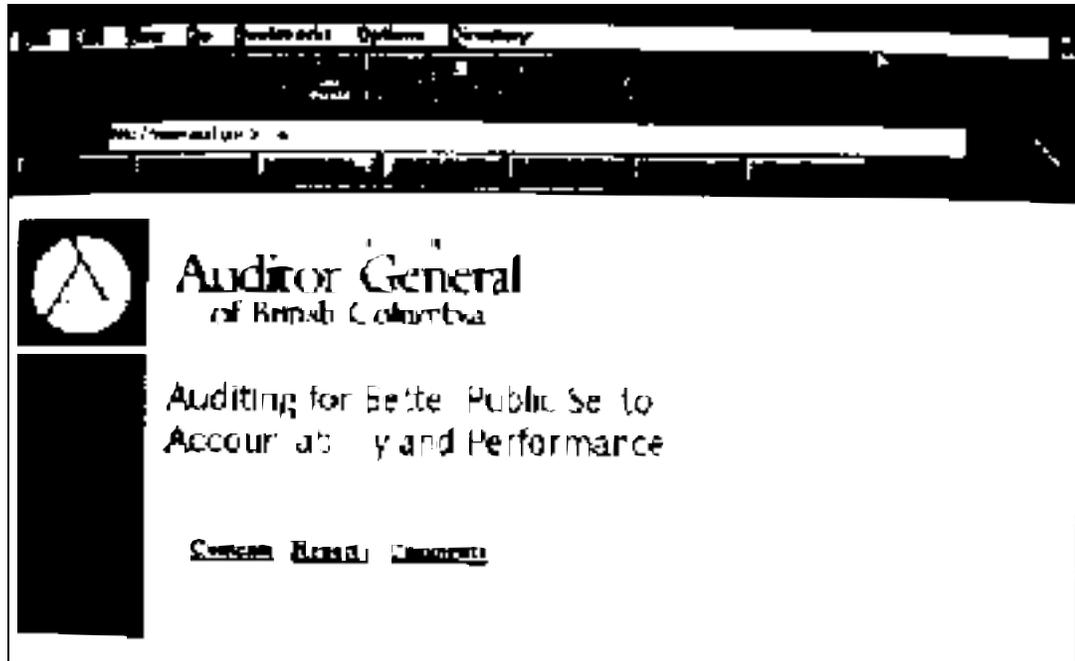
1995/96: Report 5 – Issues of Public Interest

Three subjects were reviewed and reported:

- **Special Warrants**
- **Government Employee Numbers**

- **Public Communications: Distinguishing Between Government Program and Partisan Political Communications**

Further details on these matters can be found in the “Compliance Auditing” section of this report.



Office of the Auditor General Home Page

WE ARE ON THE "NET"

The Office is continually searching for new avenues through which to disseminate our audit conclusions to Members of the Legislative Assembly and the public. Now, besides distributing our published reports, we make them available over the Internet, today a mainstream medium of communication.

From any location worldwide, an Internet user can obtain our audit reports or receive information about our Office. Without any staff involvement on our part, and with instant turn-around, the system sends out what is requested. This provides our public with a 24-hour-a-day means of accessing our reports, and it saves the Office the costs of printing, mailing, and handling a physical report.

Anybody with a personal computer, basic communications software, and an account that allows connection to the Internet can reach our Home Page at the following address:

<http://www.aud.gov.bc.ca>

Inside the Office, staff use the search capabilities of the Internet to find information related to audit projects, such as financial statements and budget documents of other

Strategic Direction 4: Ensuring Our Office is an Efficient Well-Performing Organization



In the Fall of 1995 our Office organization underwent a few changes. Our three auditing “divisions” were renamed “units” to reflect the fact that we coordinate projects and share information on an Office-wide basis. Also, in keeping with terminology used in various other jurisdictions, we changed the name of the *Value-for-Money Audit* Division to the *Performance Auditing Unit*.

To recognize that duties of the former Deputy Auditor General position are now shared by the leaders of our three units, they have been retitled Assistant Auditors General. Finally, to enhance our ability to administer Office matters, our committee structure has been revamped—we now have a Management Board consisting of the Auditor General and the three Assistant Auditors General and an Executive Council made up of the members of the Management Board and senior staff at the Principal level (Exhibit 1).

Our Financial Management

The Legislative Assembly provided the Office with an appropriation of \$7.7 million for the 1995/96 year. Almost all of this

amount was directed to carrying out the professional responsibilities of the Auditor General, with only a small percentage going for administrative support. Salaries and related benefits for our 95 professional staff accounted for the majority of our costs. A Statement of Expenditures for our Office is included as Appendix G to this report.

One of the Assistant Auditors General is the Office’s executive financial officer, with direct responsibility for financial management and systems of financial control under the overall direction of the Auditor General.

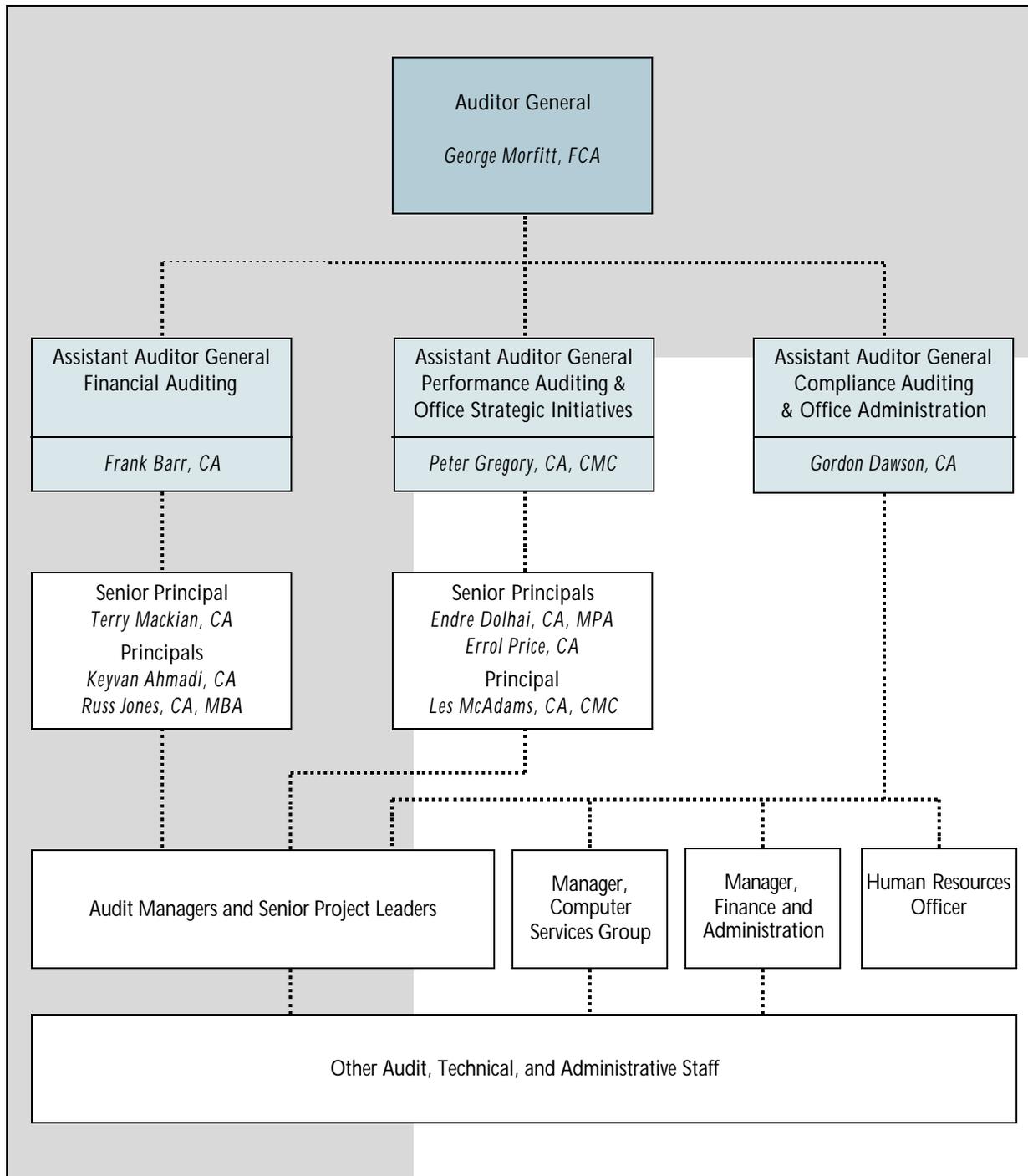
Providing Quality Assessments and Advice Efficiently

We strive to meet the highest professional standards in all our work.

In conducting audits and related work, we are governed by the auditing standards of the Canadian Institute of Chartered Accountants for financial, value-for-money (performance), and compliance auditing. These standards cover a wide range of

Exhibit 1

Organization of the Office of the Auditor General



issues that include the knowledge and competence of the auditor, the auditor's duty of care, the setting of performance or audit criteria, and the nature and extent of evidence that should be obtained to support the content of the auditor's opinion.

The Office has policies and practices to ensure we comply with professional requirements and provide accurate, reliable assessments and sound advice. Office quality assurance procedures are carried out in relation to specific assignments before we issue our reports to determine that our assessments and advice are accurate and reliable and, on an ongoing basis, to determine that our methods and processes are adequate and are being followed.

To assist in producing quality products, we have established a formal quality assurance program that includes peer reviews from inside and outside the Office. Based on the results of this program and other information, we are satisfied that our work is meeting all professional requirements.

We have also been taking a critical look at how best to conduct financial statement attestation audits. As a result of this review, we have achieved significant efficiencies by focusing more on areas where errors are likely to occur and incorporating the latest auditing technology. We also continually reevaluate and upgrade our audit methodology to make sure it meets best practice and is cost-effective.

In keeping up with the technological progress being made by those we audit, we are committed

to making the best use of our computer resources.

The Information Technology Steering Committee guides the Office-wide use of information technology. Over the years the Computer Services Group, staffed with five specialists, has implemented a number of technology initiatives to enhance research and management. Some of these initiatives during the past year include enabling access to the Internet for all staff, enhancing the Time Management System, establishing an internal Desktop Publishing position, and setting up an Internet Server for the electronic publishing of our reports.

Standards of Conduct

We believe that adherence to professional standards of conduct assists us in properly conducting our work and instilling confidence in the public and those we are auditing. Our staff follow standards laid out in government policies and procedures, and in the publications of the professional bodies to which they belong.

We follow government guidelines for treating each other and our auditees with respect and dignity, conscientiously performing our work, and avoiding conflicts of interest and the inappropriate use of confidential information.

Each year our staff make written declarations of their adherence to Office standards of practice. Besides the general standards with which all government employees are expected to comply, our standards specifically ask that we maintain

independent relationships with those audited and adhere to current professional practices.

Office Accountability

In the work we have been doing to strengthen the accountability relationship between the Legislative Assembly and government, we have been encouraging government organizations to report comprehensively and publicly on their performance. We believe the Office should abide by the same accountability principles and requirements as we are advocating for others.

However, as is the case with many other public sector organizations, we have not yet established either the measures we should use to evaluate the impacts of our work, or the processes required to gather the information

needed to make such judgments. We have much anecdotal evidence to suggest that we are having significant positive impacts, but rigorous data are not yet available. We think it is possible to report more comprehensively on the results of our work, and are committed to identifying and developing measures for assessing the effects of our auditing and related activities.

We intend, in consultation with our colleagues in legislative auditing offices across Canada and the world, to develop measures of our overall impacts, to find methods to capture the necessary information, and report it.



Audit Program

Financial Auditing

The Legislative Assembly needs independent assurance that the financial information provided to it by government is credible, and that government manages its financial affairs with integrity and using sound financial controls. Accordingly, the Auditor General provides the Assembly with an independent, professional opinion on whether the financial statements prepared by government and its related organizations are fairly presented. Reports are also provided to the Legislative Assembly on the adequacy of financial controls and financial management.

A significant benefit of the annual financial audit is that it provides an incentive to the audited organization to pursue sound financial management. The reviews we carry out in the organizations we audit to determine whether they have established appropriate systems of internal control over their financial assets and records provide a similar incentive.

What are Financial Statement Audits?

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the users. The users include those affected by the organization's activities, those who ultimately bear the cost of

financing those activities, most notably taxpayers, and other interested parties such as lenders. Evidence of this credibility is provided in the form of an auditor's report which accompanies the financial statements. This report contains the auditor's opinion as to whether the financial statements prepared by management are presented fairly. During our audit we also determine whether the financial statements are prepared using the most appropriate basis of accounting for fair presentation and disclosure. As a result of the auditor's opinion, interested parties can be confident in making informed decisions based on the information in the statements.

Focus of Our Work

All government organizations are required by statute to prepare financial statements each fiscal year and to make them publicly available. The financial statements are prepared by management and responsibility for the integrity of the statements rests with management. The financial statements prepared by management are required to conform with generally accepted accounting principles, and we therefore undertake our audits in a way that allows us to attest to the fairness and reliability of the organization's financial statements.

Selecting Audits

The Auditor General is required by the Auditor General Act to examine the accounts and records of government and to report annually to the Legislative Assembly on government's financial statements. The Auditor General must state whether all the information and explanations required have been received, and whether the statements accurately reflect the financial position, results of operation, and changes in the financial position of government in accordance with its stated accounting policies. When unable to express an opinion without reservation, the Auditor General explains the reason for the reservation.

The Auditor General is also eligible to be appointed auditor of any Crown corporation or other government organization. Auditor appointments can be made in one of several ways: by statute, by the Lieutenant Governor in Council, by the Minister of Finance, or by the board of the organization concerned.

The Auditor General is the appointed auditor of many of the Crown corporations and other government organizations. The financial statements of the remaining government organizations are audited by private sector auditors. The Office has entered into a Memorandum of Understanding with the Minister of Finance and Corporate Relations which provides the Auditor General with the ability to be involved in the audits of all government organizations in either a direct or an oversight capacity, and to report on the results of all audits to the Legislative Assembly.

Planning and Conducting Audits

Exhibit 2 illustrates the three phases involved in completing a financial statement audit and the tasks involved at each stage. The core values of the Office— independence, due care, and public trust—are inherent in all aspects of the audit work.

Planning

In the audit of any large organization it is neither feasible nor economical to examine every transaction. Instead, we assess the risk of error occurring using knowledge of the organization's business, methods of operation, and systems of internal control. We then design audit procedures that provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

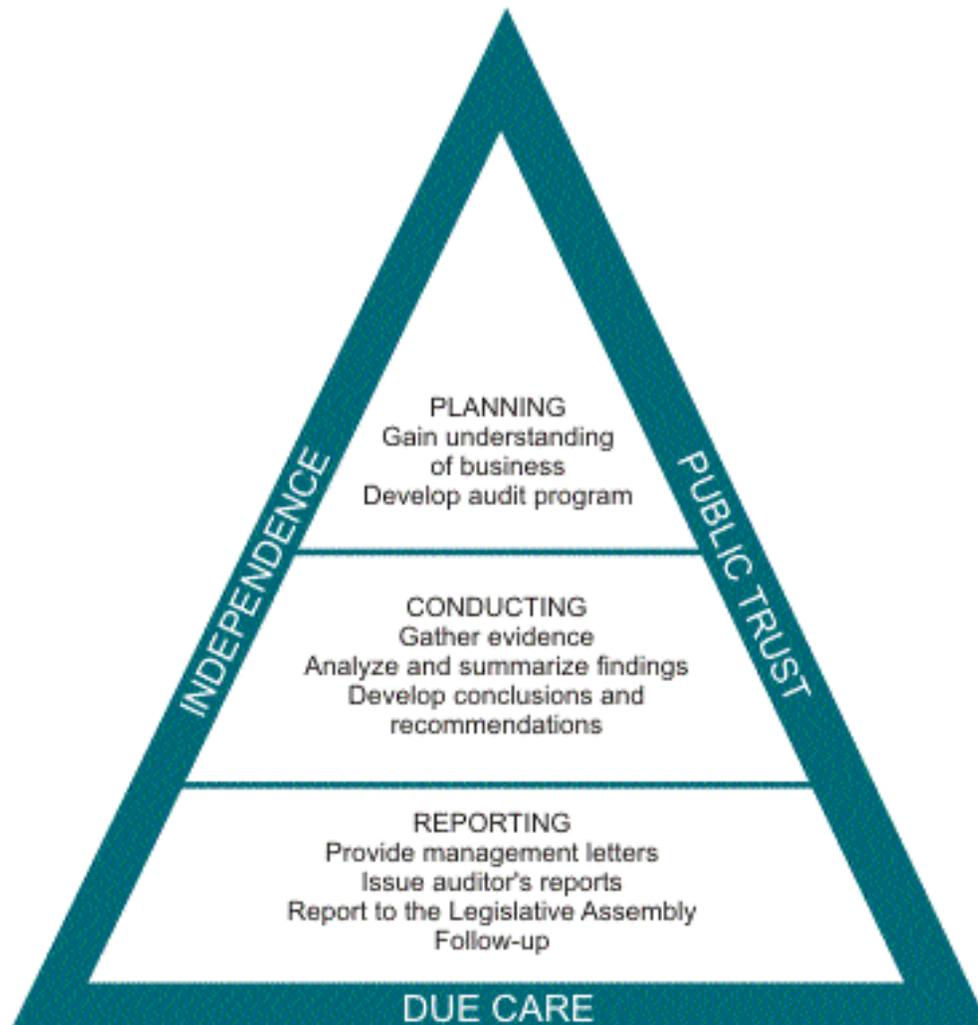
When determining the nature and extent of work required to provide such assurance, we consider two main factors: materiality and overall audit assurance.

Materiality

Materiality means the dollar amount of a misstatement that would probably change or influence the decision of a reasonably knowledgeable person relying on the statements. Although materiality is couched in dollar terms, we use both qualitative and quantitative considerations in setting our materiality limits.

Exhibit 2

Outline of the Phases of Financial Audits



Overall Audit Assurance

Overall audit assurance is expressed in percentage terms. It represents how certain we wish to be that material error does not exist.

Conducting

The conducting phase of the audit involves gathering evidence

through such means as inspection, observation, inquiry, confirmation, computation, and analysis. This evidence should provide the audit team with reasonable assurance that the financial statements are prepared in accordance with appropriate standards.

In instances where public organizations are audited by private sector auditors, we rely on their work in coming to our opinion on government's financial statements. To do so with confidence, we obtain information and assurances from the auditors and we periodically review their working paper files and audit procedures.

Reporting Audits

Each financial statement audit results in the issuance of an auditor's report—a professional opinion as to whether the financial statements are presented fairly, in all material respects. The results of the audit are discussed with senior representatives of the audited organization and a management letter summarizing the observations and recommendations arising from the financial statement audit is provided to senior management and/or the board of the organization at the completion of each audit.

The audit process also culminates in the Auditor General presenting a report to the Legislative Assembly, containing comments on matters of significance arising from all financial statement audits and internal control reviews carried out during the year. That report is referred to as the Report on Public Accounts.

This report gives us an opportunity to discuss a wide range of issues relating to government's accountability for financial performance.

- We comment on how government's financial statements are compiled and on what changes have taken place in the government reporting entity.

- We summarize the financial highlights of government's revenues, expenditures, and financial position, provide information about government debt and make suggestions on specific topics of current interest.
- We make recommendations as to how the financial statements and other financial information provided by government should be improved. When we return to do the following years' audit we check whether or not these recommendations have been addressed and include these findings in the Public Accounts report.

We provide informed commentary and analysis on matters relating to financial auditing, accounting, and control. As well as including some of this information in our public reports, we prepare other documents on accounting and auditing matters to assist government officials, including those who set the standards for financial reporting and auditing, and other interested parties.

With the introduction of government's debt management plan in 1995, we also issue an audit report on plan progress.

What are Internal Control Reviews?

Billions of dollars in public funds flow through government every year. It is imperative, therefore, imperative that government control processes be effective and well designed so that these funds are protected and properly accounted for.

To make sure these controls are effective, the Office performs reviews in areas of risk, or areas where more accountability is needed than can be provided from a financial statement audit. Our goal in these reviews is to provide the Legislative Assembly and the public with independent assessments of, and advice on, the effectiveness of controls so that public financial management can be improved.

Our experience with financial controls enables us to identify opportunities for improvement and provide management with useful recommendations. This allows legislators, board members, and management to act on problems before they arise, rather than after significant damage has already occurred.

Focus of our work

Government organizations normally have not been providing accountability information with respect to the adequacy of their financial controls and financial management. Consequently, we undertake our internal control reviews using the direct reporting approach, amassing essential information on financial performance and presenting it, together with our audit assessment, in long-form narrative reports.

Selecting Reviews

The *Auditor General Act* directs the Auditor General to conduct reviews of internal controls when accounting records are not sufficient or properly kept, or when internal controls are not adequate to protect the assets of the Crown.

The systems we select to review are chosen primarily based on our perception of the risk of errors occurring if control processes are ineffective. For example, some expenditure programs may have few transactions, but are complex in nature, with many subjective judgments needed to determine whether or not the payments should be made. If this complexity is not recognized or the quality of judgment is not confirmed from time to time, errors may occur and not be found. In other programs, the transactions may be relatively simple but numerous, requiring a processing system that can handle large volumes. A system with inadequate processing capacity increases the risk of errors happening.

The environment within which each program and financial system operates creates a unique combination of risks. The risks inherent in a particular system determines the point at which the benefits of additional controls outweigh the costs. We recognize this balance when selecting our projects and reporting the results.

Planning and Conducting Reviews

The phases and tasks in completing an internal control review are similar to those involved in a financial statement audit as outlined in Exhibit 2.

Planning

Reviews begin with a planning phase in which we identify the issues to be examined, the timing

and objectives, and determine the resources and methods to be used.

Conducting

The next stage of a review involves the gathering, analyzing, and testing of information. The audit team evaluates existing management controls and processes, identifies the causes and implications of any shortcomings, and develops conclusions. Where applicable, the team also makes recommendations for corrective action.

Reporting Reviews

The draft report of the review is discussed with the organization's representatives and their comments considered before the report is formally issued to the Legislative Assembly. In writing the report on the internal control review, we ensure that recommendations are significant, practical, and specific, but not so specific as to infringe on management's responsibility for managing.

The results of our internal control reviews are reported to the Deputy Minister or the board of the organization concerned. We include a summary of our findings and recommendations in our Report on the Public Accounts together with a summary of the ministry's response to our recommendations. This provides us with a basis for monitoring remedial actions and reporting on them in our subsequent reports.

It takes time to implement the recommendations that arise from internal control reviews. Consequently, when management

first responds to our reports, it is often only able to indicate its intention to resolve the matters raised by our audits, rather than to describe its actions in doing so. Each year we invite organizations to provide us with the current state of progress on recommendations contained in prior years' reviews. We then evaluate whether or not we believe the progress is satisfactory and whether a follow-up audit is appropriate.

Improving Accountability for Financial Performance

Financial Reporting

For several years our Office has recommended that government use the Summary Financial Statements, and information extracted from them, when providing public comment on the results of its operations, as these financial statements provide the most complete accounting for government activities. This year, for the first time, government has produced an annual report—as Volume 1 of the Public Accounts—presenting key information drawn from the Summary Financial Statements of the Province.

In September 1995, Treasury Board undertook to expand government's financial reporting entity and to record capital assets on the Province's books. These changes are to take place starting with the March 31, 1996 financial statements.

Expanded Financial Report Entity

The expansion of the financial reporting entity complies with the recommendation of the Public

Sector Accounting and Auditing Board (PSAAB) that “the government reporting entity should comprise the organizations which are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the Legislature and which are owned or controlled by government.”

The impact of this change is that, for the coming fiscal year, the Summary Financial Statements of government will be increased by approximately 250 organizations (including provincial hospitals, regional hospital districts, universities, colleges and institutes, and school districts).

Including all these organizations in the new financial reporting entity brings with it numerous accounting, reporting, and auditing challenges. For example, all have different year ends (June, December, and March) and accounting policies that are inconsistent with government’s. Furthermore, to understand the operations of these organizations and how they determine their accounting adjustments requires considerable work and extensive contact with the organizations and their auditors. This has put an additional workload on both the Offices of the Comptroller General and Auditor General.

Capital Assets

The government’s decision to record physical assets is consistent with PSAAB’s emerging guidance for determining the accounting and reporting policies for recording capital assets. In the coming year of



Auditor General discusses government financial reporting with Comptroller General, Alan Barnard

this multi-year project, recording of the assets that are easiest to identify and value is being done. Identification of which type of assets to record is relatively easy. Identification of the individual assets owned by government, the price at which they were purchased, and the time when they were purchased, is not as easy. This has again increased the workload on the Offices of the Comptroller

General and Auditor General, as well as of the individual ministries.

For both areas—expanding the financial reporting entity, and recording capital assets—this Office is working closely with the Office of the Comptroller General to ensure that the end result of these two initiatives is carried out in the most cost-effective way.

Comprehensive Debt Reporting

In our recent reports on the Public Accounts, we have been recommending to government that it provide more comprehensive and understandable information about provincial debt.

In response, and recognizing the increasing public concern about debt and deficits, government enhanced its reporting of debt and included with its 1995/96 budget a debt management plan. We audited the progress report included with this plan, and government subsequently issued its first Debt Management Progress Report at the same time as the 1994/95 Public Accounts.

This is the first report of its kind to be produced and audited in Canada. Incorporating the financial indicators about debt and its reporting which we have been recommending in our reports on the Public Accounts, the report required a considerable amount of developmental work by our Office. We were extensively involved with government managers in ensuring that these indicators and the way they were used was appropriate and consistent with the

recommendations we made to government.

We believe that government accountability is enhanced by subjecting such important financial accountability information to audit.

Accounting for Downstream Benefits

In early 1995, in response to a request from the Comptroller General as to our views on the proper accounting treatment for recognizing proceeds from the sale of downstream benefits of power generated by BC Hydro, we recommended that any proceeds not be recognized as revenue when received, but recognized only in amounts relative to entitlements sold in that year, in accordance with the accrual basis of accounting.

Reporting Implicit Expenditures

In our last two reports on the Public Accounts, we recommended to government that it report on transactions known as “implicit expenditures.” In *Budget 95* and *Budget 96* it did, but only on tax expenditures. In our *1995/96 Report on the 1994/95 Public Accounts*, we comment about other deductions from revenue. We also encourage government to explore ways it might provide full information about the cost of government activities through combining information about implicit expenditures with other expenditures.

Recording All Government Obligations

The government this year also recognized in the Province's financial statements the remaining unfunded liabilities of all public sector pension plans. These liabilities amounted to \$2.5 billion, and recording them is a significant step in the Province recognizing its obligations.

Government Plans to Improve Financial Accountability

In our last few reports we have discussed our concerns about which organizations should be included in the Province's Summary Financial Statements, and the issue of the recording as government assets those loans made to government organizations which can only be repaid through future government funding to those organizations. Associated with these comments was the need for government to report the full extent of its activities and financial position in a more meaningful way—a way that would more accurately capture full program costs on a fiscal year basis.

In this regard, government has decided to include in its 1995/96 financial statements the full range of public sector organizations for which it is responsible and, as well, to recognize the physical assets employed in delivering its programs. These actions should, to a large extent, resolve our concerns about the present form and content of the Province's financial statements and provide a sound basis from which government can

report on its program costs and performance.

At the same time, significant changes are occurring in how government organizations such as hospitals, universities, and colleges are required to account for their transactions. The Canadian Institute of Chartered Accountants has, for the first time, provided comprehensive accounting guidance to organizations in the not-for-profit sector. This guidance requires many organizations to record and amortize physical assets. Although the required implementation date is not until next year, some of the organizations we audit are adopting the changes for this year's financial statement. When implemented, the changes should lead to like organizations reporting their financial affairs in a comparable way, which will allow users to more effectively assess the cost of services they are providing.

Our Office has been involved with both developing the standards and assisting the public sector organizations we audit implement the new standards.

Improving Financial Accounting and Reporting Standards

Our Office is committed to ensuring that appropriate accounting and reporting standards are established for the public sector. As part of this effort, the Office responds to pronouncements on emerging standards and changes in current standards. During the past year we have provided input to the following areas:

- *Defining the Government Financial Reporting Entity*—which

organizations should be included in a government's financial statements and how these organizations should be accounted for

- *Proposed Revision to Introduction to Public Sector Accounting and Auditing Recommendations*—definition of “public sector” for the purposes of Public Sector Accounting and Auditing Board recommendations
- *Guidance for Directors – Governance Processes for Control*—guidance on how a board of directors can discharge its responsibilities for designing, assessing, and reporting on control systems in their organizations
- *Proposed Statement of Principles on the Auditors' Report on Financial Statements Prepared using an Appropriate Disclosed Basis of Accounting*—principles to determine what is the appropriate standards for public sector financial statement reporting
- *Restricted Assets and Revenue*—principles to account for and report restricted assets and revenues in government financial statements
- *Disclosure of Related Party Transactions by Not-for-profit Organizations*—new disclosure requirements for recognizing related party transactions in the financial statements
- *Communication of Matters Identified During the Financial Statement Audit*—guidance on what, when, and how matters identified in the financial

statement audit should be communicated

- *Tangible Capital Assets*—accounting principles regarding recognition, measurement, and disclosure requirements for governments' tangible capital assets
- Forthcoming implementation guidance from the Canadian Institute of Chartered Accountants on the new standards for not-for-profit organizations—detailed discussion on the meaning of the new not-for-profit standards

In addition, members of the Office have participated directly in the process of setting accounting standards by sitting on several boards. George Morfitt, Auditor General, chaired the Public Sector Accounting and Auditing Board. Frank Barr, an Assistant Auditor General, is a member of the Government Organization Task Force and serves on an advisory committee to advise on the applicability of recommendations for not-for-profit organizations.

Also, as a member of the Public Sector Constituency Network of the International Federation of Accountants, we make this Office's views and comments known to the Public Sector Committee of the Federation about programs developed by that committee aiming at improving public sector's financial management and accountability.

This Office participates in all discussions, studies, and annual meetings of the Western Canadian Conference of Legislative Auditors (WCOLA) and the Legislative Auditors Practice Committee

(LAPC). WCOLA focuses on financial accounting and auditing issues of significant interest to the legislative auditing community. LAPC establishes guidelines of best practice for its member offices across Canada, including practices aimed to improve financial accounting and auditing standards ranging from human resource management, training, and audit methodology to financial statement presentation and adherence to recommendations

of the Institute of Chartered Accountants' Public Sector Accounting and Auditing Board.

We recognize that stating its accounting policy is the Government's prerogative. Our responsibility is to evaluate and report on such policy. We have established a cordial working relationship with the Comptroller General and staff that allows us to offer our constructive criticism and research assistance when significant accounting policies are being

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

In Canada, a key role of the Canadian Institute of Chartered Accountants (CICA) is the setting of accounting and auditing standards. Financial reporting, accounting and auditing provide information essential to economic decision-making and accountability in both the private and public sectors. To be useful, this information must be understandable, comparable, relevant, reliable, and credible.

In discharging its standard-setting function, the CICA has established a number of boards:

- Accounting Standards Board (AcSB)
- Auditing Standards Board (AuSB)
- Criteria of Control Board (CoCo)
- Public Sector Accounting and Auditing Board (PSAAB)

These boards follow a rigorous process that gives those affected by pronouncements an opportunity to express their views while issues are being considered and recommendations developed. Four main steps are followed:

- project scoping and approval;
- formulation and agreement on basic principles (associates draft);
- preparation and issue of an exposure draft for public comment (public exposure draft); and
- approval and issue of the final recommendations.

The Public Sector Accounting and Auditing Board's objective is to recommend standards to improve and harmonize public sector financial reporting, accounting, and auditing so that the best interests of the public—users, preparers, and auditors of financial information—are met.

In formulating appropriate accounting policies and financial reporting practices for government, PSAAB draws on expertise from every segment of the community. Senior officials of government, other public sector organizations, and academics sit on the board and its various task forces.

developed. We believe this is an effective process, as Treasury Board benefits from our views about matters of accounting before finalizing its decision on them.

To assess where the risk of errors is most likely for each organization we audit, we have developed a comprehensive understanding of the entity, the environment in which it operates, the impact of economic conditions, and the effectiveness of the systems of internal control. The knowledge we obtain this way helps us plan the most efficient audit and determine what advanced audit tools and computer assisted audit techniques should be used during the testing and evaluation phases of the audit. These tools enable us to interrogate, analyze, and extract data, and simulate or project the

information obtained for comparison with the actual amounts audited to determine whether error is likely to exist.

Assessing Financial Information

Audits and Reviews Conducted This Year

We audit only a relatively small number of government organizations. Most of the rest are audited by private sector accounting firms. As the auditor of government financial statements, we rely on these audited financial statements. In order to establish a sound basis for our reliance on other auditors, the auditing standards referred to above require that we do certain things, including review of other auditor's working papers.



Financial auditors examine inventory of the Liquor Distribution Branch

Exhibit 3

Audit Opinions Delivered by the Office of the Auditor General

Financial statements of British Columbia government and constituent organizations

	Increase	1995	1990
Numbers of Opinions Delivered			
<i>Central Government:</i>			
Summary Financial Statements		1	1
Consolidated Revenue Fund (CRF)		1	1
<i>Public bodies:</i>			
Included in Summary Financial Statements		14	14
Trust Funds (pension funds, including WCB and unit pools)		25	12
Others (Universities, Foundations)		13	7
	54%	54	35
Other audits requiring separate opinions		14	7
Total Opinions Issued	62%	68	42
Reliance on Other Auditors			
Financial Statements and Opinions Reviewed		28	20
Working Papers Reviewed		8	3
	57%	36	23
Internal Control and Other Reviews			
Control Reviews Publicly Reported		3	4
Control Reviews Not Publicly Reported		1	0
Other Reviews Publicly Reported		22	21
	4%	26	25

In addition to government entities, we also audit financial statements of 25 trust funds, administered by government on behalf of a variety of beneficiaries, as well as 13 other organizations. In the year ended March 31, 1996 we met all our reporting deadlines, many of which are statutory.

In the past five years, our Office has significantly increased

the number of audit opinions delivered on the financial statements of the British Columbia Government and constituent organizations (Exhibit 3). This has resulted in an increase, from 1990/91 to 1995/96, of approximately \$90 billion in total dollars audited—from \$140 billion to \$230 billion.

Until 1990 we reported on government's Public Accounts in a

FINANCIAL STATEMENT AUDITS

Purpose of Financial Statement Audits

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the users. Evidence of this auditability is provided in the form of an Auditor's Report which accompanies the financial statements and contains the auditor's opinion about whether the statements are presented fairly, in accordance with an appropriate, disclosed basis of accounting.

Another benefit of this type of annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. It also frequently enables the auditor to provide assistance and advice to an organization as a direct result of findings developed during the audit.

Reporting the Results of Audits

The reports issued on financial statement audit results are addressed to whoever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders, or some appropriate representative of those with a stake in the organization. In the case of government financial statements examined by this Office, the Auditor General addresses his or her reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The Auditor's Report constitutes the auditor's professional opinion on the financial statements, and usually consists of three paragraphs:

- The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements.
- Next is the "scope" paragraph, which describes the nature and extent of the auditor's work and the degree of assurance that the Auditor's Report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures that the auditor undertakes.
- The third paragraph, frequently referred to as the "opinion" paragraph, contains the auditor's conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, the report must include another paragraph, located between the scope and the opinion paragraphs. The auditor advises the reader as to the reasons for the reservation, and the effects (or possible effects) on the financial statements of the matters giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements—information that does not constitute a reservation in the audit opinion—this would appear in a further, explanatory paragraph to the report.

single volume, as part of our Annual Report. Every year since 1991, we have issued a separate report on the form and contents of the Public Accounts. This special public Report of the Auditor General has, in the last five years, evolved into a collection of condensed individual audit reports and comments on significant aspects of government's public financial accountability and control. It provides insights into issues of public interest related to government financial accountability.

During the last five years we have increased our reporting coverage of matters related to government financial accountability approximately three-fold. Our Report on the 1994/95 Public Accounts, issued within weeks of the Public Accounts, included comments on, and reviews of, the following.

- Audit of the Financial Statements of the Province
- Audits of Financial Statements of Government Entities, Trust Funds and Other Organizations
- Form and Contents of the Public Accounts
- Columbia River Treaty Downstream Benefits
- Implicit Expenditures
- Provincial Debt, and Its Reporting
- Financial Highlights
- New Corporate Accounting System
- Income Assistance Payment System
- BC 21 Community Projects Program

Memorandum of Understanding

During the year, the Auditor General and the Minister of Finance agreed to rationalize how the audit of the financial statements of government organizations are carried out. To this end, the Minister and the Auditor General signed a Memorandum of Understanding that requires the Minister to seek the Auditor General's advice as to the nature and extent of audit, and the appointment of auditors of certain government organizations.

In keeping with this memorandum, the Auditor General plans to reduce, in phases over the next five years, the direct financial audit work carried out by the Office to be able to increase the oversight role for audit work of private sector auditors as part of expanded government reporting and the inclusion of physical assets in the financial statements of government.

New Entities to be Audited

This year, our Office was appointed as auditor for a number of new entities, thus adding to our responsibilities.

- Five British Columbia Pooled Investment Portfolios—the Short Term Bond Fund, the Pension bond Fund, the Fixed Term Mortgage Fund, the Construction Mortgage Fund, and the Private Placement Fund—were all established under section 36.1 of the *Financial Administration Act*.
- Royal Roads University, the latest addition to universities in British Columbia, was established under the *Royal Roads University Act* on June 30, 1995. The new

university is responsible for offering certificate, diploma, and degree programs at the undergraduate and graduate levels in the applied and professional fields, providing continuing education in response to the needs of the local community, and maintaining teaching excellence and research activities that support the university's programs in response to the labor market needs of British Columbia.

- The British Columbia Securities Commission was established as a Crown corporation on April 1, 1995, under the *Securities Amendment Act 1995*. Its purpose is to administer and enforce the *Securities Act* and the *Commodity Contract Act* in order to protect the public from fraud and abuse, and to ensure that the Province's capital markets operate fairly and efficiently.

Improving Financial Auditing Standards

The Office is committed to the development and maintenance of auditing standards and practices that are in step with the latest thinking in legislative audit offices across the country. By so doing, we believe that our staff will help improve the practice of financial, performance, and compliance-with-authorities auditing, which in turn will ultimately benefit the members of the public for whom such auditing is conducted.

During the past year, we have contributed by responding to the following associate and public level exposure drafts:

- *Confirmations Section 5303*—guidance on the use of confirmation as a means of obtaining audit evidence.
- *Analysis – Section 5301*—guidance on the auditor's use of analysis, including the nature of analytical procedures.
- *Standards for Assurance Engagements*—professional standards for assurance engagements to cover a broad area of subjects such as compliance with contractual obligations or legislative authorities, adequacy or effectiveness of control systems, reliability of future-oriented financial information, economy, efficiency, and effectiveness of operations, performance measures, and control systems relating to environmental matters.

Directly Assessing Financial Performance

Internal Control Reviews Completed During the Year

Corporate Accounting System

Over the last two years, we have reviewed the development and implementation of government's Corporate Accounting System (CAS). This year, because the current version of CAS had not changed significantly, we concentrated our review on project development, an area in which we had previously identified several weaknesses.

One of our concerns is that the existing central batching system (CBS) will soon be obsolete and requires technology that will

possibly not be economically accessible in two years' time. More importantly, however, even if the appropriate modifications were made to CBS to keep it functional, the approach of the millennium creates another problem: the system's coding cannot handle transactions dated 2000.

Our review found that although potential users of CAS generally support the system, they also believe that the project management has been trying to accomplish too much too quickly over the past year, without giving full consideration to user needs. They are also concerned that the documentation is at too high a level to allow them to determine how the new system will meet their business and functional requirements. We also found that there are serious shortcomings in communications.

We recommended that the project team improve its communication with the individual ministries to ensure both that their business requirements are met and that they are satisfied with the proposed system. Furthermore, we recommended that secured long-term funding be arranged, to allow uninterrupted financing for the project.

Income Assistance Payment System

The Ministry of Social Services spent over \$1.8 billion in 1994/95 in providing income assistance—about two-thirds of the Province's total expenditure on various social services (Exhibit 4). The financial assistance provided under the program is to help eligible persons meet the cost of basic living needs.

At March 31, 1995, there were 374,000 persons, including their dependents, who were receiving income assistance.

The focus of our review was on the internal controls designed by management to obtain reasonable assurance that income assistance benefits are paid only to eligible persons, and that benefits are calculated correctly and properly recorded. It also covered ministry processes for detecting and reducing errors, abuse, and fraud in the system.

The income assistance payment system is complex and processes a large volume of requests for assistance. To meet the needs of income assistance applicants and recipients in a compassionate and timely manner gives rise to a higher-than-normal risk of incorrect payments.

We expressed concern about incorrect payments because of inconsistent and excessively lenient field practices in applying these procedures. Some measures have been taken by the ministry to improve eligibility processes, and to reduce and recover overpayments, but we believe more should be done to ensure the measures are effective. We made 25 recommendations to improve internal controls over the income assistance payment system.

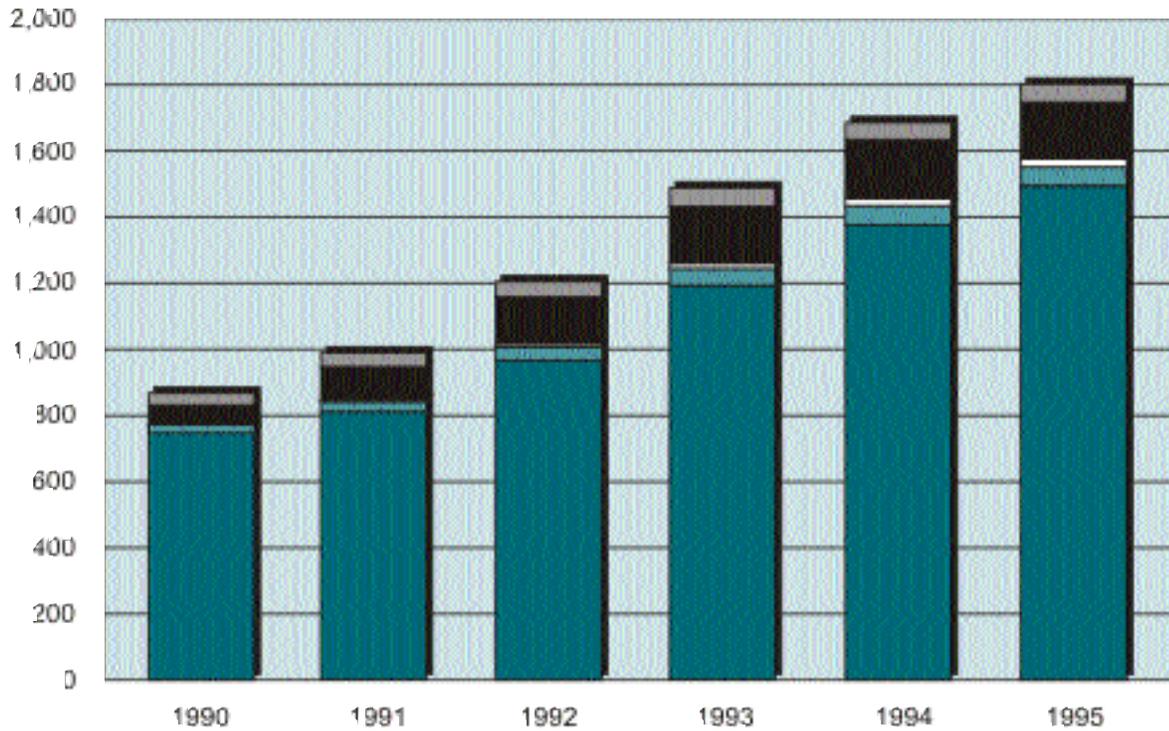
BC 21 Community Projects Program

This program is part of government's BC 21 initiative and is funded through the Build BC Special Account. The purpose of the program is to support one-time capital projects that meet a range

Exhibit 4

Income Assistance Expenditure, 1990 to 1995

Growth in income assistance expenditure, in total and by type of assistance (\$ Millions)



	1990 (\$)	1995 (\$)	Increase from 1990 to 1995	
			(\$)	(%)
Basic regular	765	1,493	728	95
Supplementary	25	61	36	144
Crisis	5	26	21	420
Hardship	57	167	110	193
Other	36	56	20	56
	<u>888</u>	<u>1,803</u>	<u>915</u>	

Source: The Public Accounts and the Ministry of Social Services

of community needs, such as the construction of swimming pools, sports fields, cultural centers, and fire halls. Since the program's inception in 1993, over \$25 million of funding has been approved.

Our review was primarily interested in assessing the effectiveness of controls in the program to the extent that they provide reasonable assurance that the grants approved meet the objectives of the program, the grants are used for the purposes awarded, and information is sufficient to monitor, evaluate, and report on the results of the program.

Overall, we concluded that the program is well administered, but that improvements were also needed in requesting details of what outcomes the applicants expected to achieve with their project, and in designing performance indicators to measure how well the program's aims and objectives are achieved.

In addition, we stated that greater emphasis needs to be placed on assessing the financial need of applicants, and on ensuring that funding from other provincial programs was not used.

Internal Control Reviews in Progress

We have four reviews under way which will be reported on in the coming year.

The first of these is a review of controls associated with expenditures being made through a number of initiatives funded from the BC 21 Special Account. The Special Account was established

in the fall of 1993, and, since its inception, over \$200 million has been expended in order to facilitate expansion and diversification of the economy.

The second is a review of the controls established by the Ministry of Forests over forest revenue. This revenue represents the third largest source of revenue to government and is estimated to exceed \$1.4 billion in 1995/96. We want to assess whether the controls established by the ministry are effective to the extent that they provide reasonable assurance that all timber harvested by forest companies is authorized, accurately reported, and results in a complete and accurate invoice.

We are also updating our report on government's new Corporate Accounting System (CAS). Since our last report on CAS, the responsibility for project management has significantly changed. CAS is a large financial accounting and reporting system which has been under development for a number of years. We want to annually assess and report on financial controls built into the system, as well as the progress of the project until it is completed.

The fourth is an assessment of the adequacy of controls in place in government's corporate human resource information payroll system (CHIPS). Amongst other functions this system looks after the government payroll.

Performance Auditing

What are Performance Audits?

Performance audits (also known as value-for-money audits) examine whether money is being spent wisely by government—whether value is received for the money spent. Specifically, they look at the organizational and program elements of government performance, whether government is achieving something that needs doing at a reasonable cost, and consider whether government managers are:

- making the best use of public funds; and
- adequately accounting for the prudent and effective management of the resources entrusted to them.

The aim of these audits is to provide the Legislature with independent assessments about whether government programs are implemented and administered economically, efficiently, and effectively, and whether Members of the Legislative Assembly and the public are being provided with fair, reliable accountability information with respect to organizational and program performance.

In completing these audits, we collect and analyze information about how resources are managed: that is, how they are acquired and how they are used. We also assess whether legislators and the public

have been given an adequate explanation of what has been accomplished with the resources provided to government managers. Exhibit 5 illustrates the aspects of management examined in a performance audit.

Focus of Our Work

A performance audit has been described as:

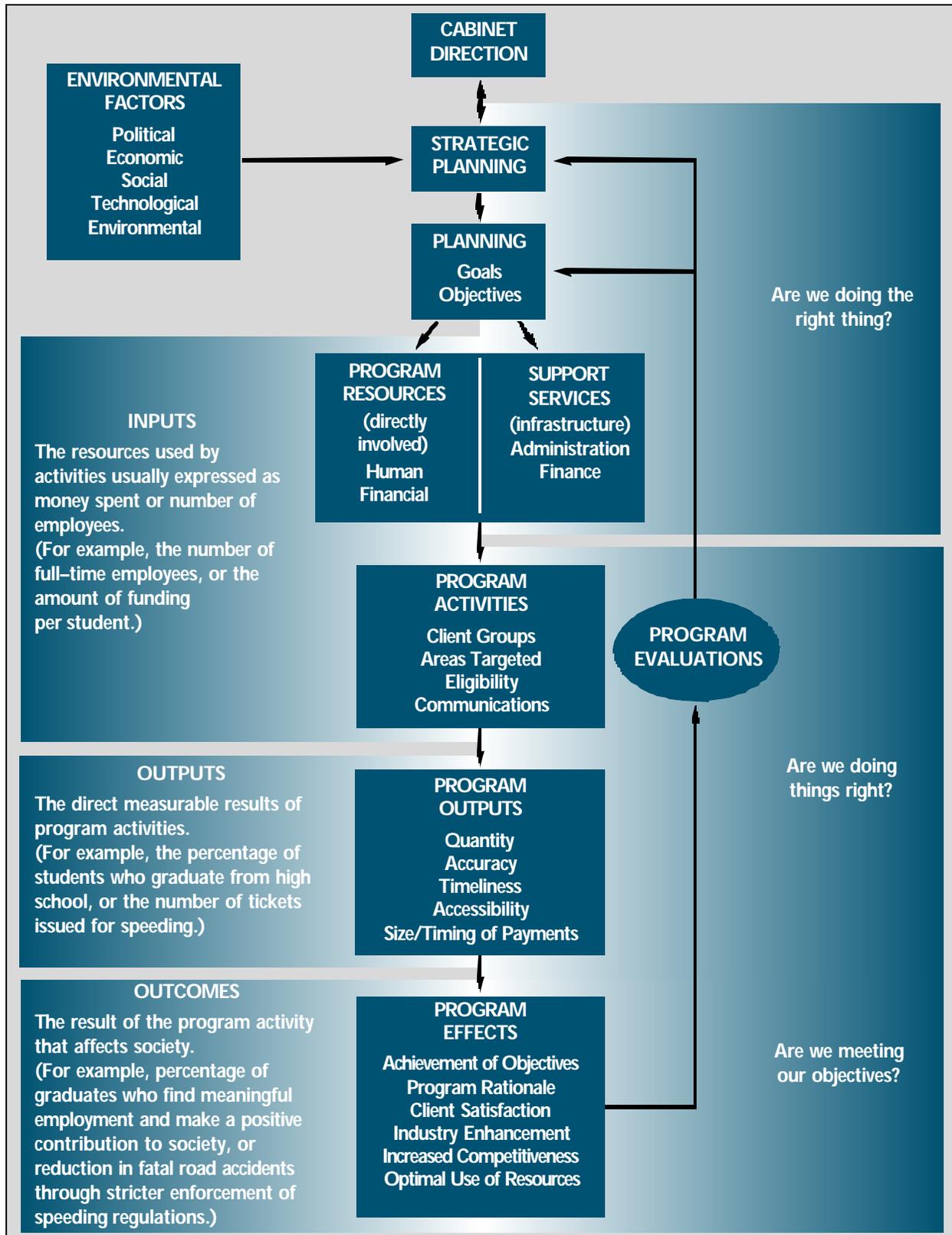
...the independent, objective assessment of the fairness of management's representations on organizational and program performance, or the assessment of management performance, against criteria, reported to a governing body or others with similar responsibilities.

This definition recognizes that there are two forms of reporting used in performance auditing. The first—referred to as *attestation* reporting—is the provision of audit opinions as to the fairness of management's publicly reported accountability information on matters of economy, efficiency, and effectiveness. This approach has been used to a very limited degree in British Columbia because the organizations we audit do not yet provide comprehensive accountability reports on their organizational and program performance.

We believe that government reporting along with independent audit is the best way of meeting

Exhibit 5

Management Model



accountability responsibilities. Consequently, we have been encouraging the use of this model in the British Columbia public sector, and will apply it where comprehensive accountability information on performance is made available by management.

As the performance audits conducted in British Columbia use the second form of reporting—*direct reporting*—the description that follows explains that model.

Our “direct reporting” performance audits are not designed to question whether government policies are appropriate and effective (that is, achieve their intended outcomes). Rather, as directed by the *Auditor General Act*, these audits assess whether the programs implemented to achieve government policies are being administered economically and efficiently. They also evaluate whether Members of the Legislative Assembly and the public are being provided with appropriate accountability information about government programs.

When undertaking performance audits, we look for information about results to determine whether government organizations and programs actually provide value for money. If they do not, or if we are unable to assess results directly, we then examine management’s processes to determine what problems exist or whether the processes are capable of ensuring that value is received for money spent.

Selecting Audits

All of government, including Crown corporations and other government organizations, are included in the universe we consider when selecting audits. We also may undertake reviews of provincial participation in organizations outside of government if they carry on significant government programs and receive substantial provincial funding.

When selecting the audit subjects we will undertake, we base our decision on the significance and interest of an area or topic to our primary clients, the members of the Legislative Assembly and the public. We consider both the significance and risk in our evaluation. We aim to provide fair, independent assessments of the quality of government administration and to identify opportunities to improve the performance of government. Therefore, we do not focus exclusively on areas of high risk or known problems.

We select for audit either programs or functions administered by a specific ministry or government organization, or cross-government programs or functions that apply to many government entities. A large number of such programs and functions exist throughout government. We examine the larger and more significant of these on a cyclical basis.

Our view is that, in the absence of comprehensive accountability information being made available by government,

performance audits using the direct reporting approach should be undertaken on a five- to six-year cycle so that Members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. We strive to achieve this schedule, but it is affected by the availability of time and resources.

Planning and Conducting Audits

Exhibit 6 illustrates the four phases of a performance audit—preliminary study, planning, conducting, and reporting—and the tasks involved at each stage. The core values of the Office— independence, due care, and public trust—are inherent in all aspects of the audit work.

Preliminary Study

Before an audit starts, we undertake a preliminary study to identify issues and gather sufficient information to decide whether an audit is warranted.

At this time, we also determine the audit team. The audit team must be made up of individuals who have the knowledge and competence necessary to carry out the particular audit. In most cases, we use our own professionals, who have training and experience in a variety of fields. As well, we often supplement the knowledge and competence of our staff by engaging one or more consultants to be part of the audit team.

In examining a particular aspect of an organization to audit, auditors can look either at results,

to assess whether value for money is actually achieved, or at management's processes, to determine whether those processes should ensure that value is received for money spent. Neither approach alone can answer all the questions of legislators and the public, particularly if problems are found during the audit. We therefore try to combine both approaches wherever we can. However, because acceptable results-oriented information and criteria are often not available, our performance audits frequently concentrate on management's processes for achieving value for money.

If a preliminary study does not lead to an audit, the results of the study may still be reported to the Legislature.

Planning

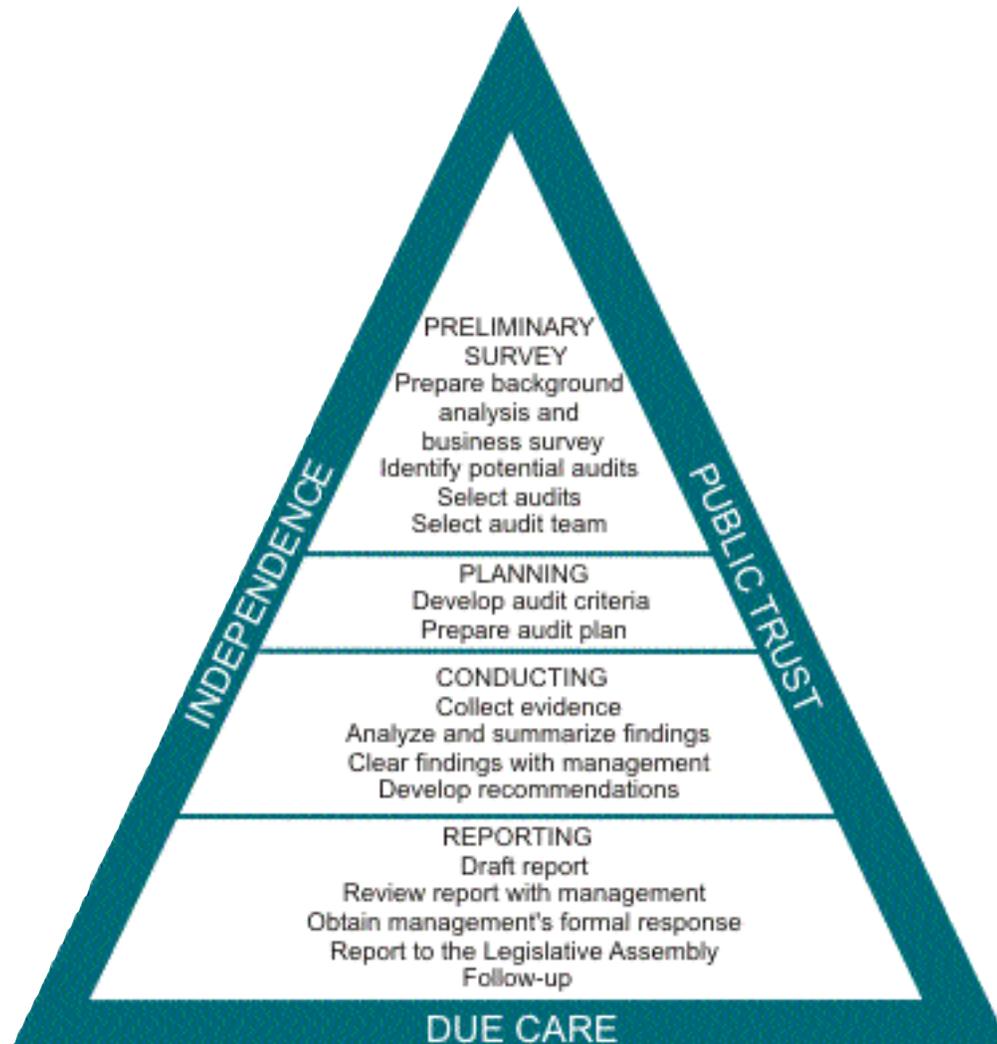
In the planning phase, the key tasks are to develop audit criteria—"standards of performance"—and an audit plan outlining how the audit team will obtain the information necessary to assess the organization's performance against the criteria. In establishing the criteria, we do not expect theoretical perfection from public sector managers rather, we aim to reflect what we believe to be the reasonable expectations of legislators and the public.

Conducting

The conducting phase of the audit involves gathering, analyzing, and synthesizing information to assess the organization's performance against the audit criteria. We use a variety of techniques to obtain such

Exhibit 6

Outline of the Phases of Performance Audits



information, including surveys, and questionnaires, interviews, and document reviews.

Reporting Audits

We discuss the draft report with the organization's representatives and consider their comments before the report is formally issued to the

Legislative Assembly. In writing the audit report, we ensure that recommendations are significant, practical, and specific but not so specific as to infringe on management's responsibility for managing. The final report is tabled in the Legislative Assembly and referred to the Public Accounts

Committee, where it serves as a basis for the committee's deliberations.

Reports on performance audits published throughout the year as they are completed, and tabled in the Legislature at the earliest opportunity. We report our audit findings in two parts: an overall conclusion and a more detailed and explanatory report. The overall conclusion constitutes the Auditor General's independent assessment of how well the organization has met the performance expectations. The more detailed report provides background information and a description of what we found. When appropriate, we also make recommendations as to how the issues identified may be remedied.

It takes time to implement the recommendations that arise from performance audits. Consequently, when management first responds to an audit report, it is often only able to indicate its intention to resolve the matters raised, rather than to describe exactly what it plans to do.

Without further information, however, legislators and the public would not be aware of the nature, extent, and results of management's remedial actions. Therefore, we publish updates of management's responses to the performance audits we reported in the preceding year. In addition, when it is useful to do so, we conduct follow-up audits. The results of these are also reported to the Legislature.

Improving Accountability for Organizational and Program Performance

Accountability Initiative

For years the emphasis in measuring government performance has been on financial results, such as how much money has been spent and whether goods and services purchased are within approved guidelines. Thus, the structures for measuring, reporting, and auditing such information are well-established.

Accounting for organizational and program performance requires that we look at different types of results, such as the impacts of purchasing the goods and services. To be able to measure these impacts, government managers need to develop measures to determine whether spending is achieving program goals, and systems for collecting data to enable the measurement to take place.

As part of our on-going study of accounting and auditing initiatives in other jurisdictions, we found that some are trying new approaches to improve accountability for performance. We learned that many, like the United States, New Zealand, and Alberta, have begun to emphasize the importance of measuring and reporting results of program efforts as a means of deciding where to focus limited resources.

Since no other government agency in British Columbia was pursuing these concepts with improved accountability in mind, we started the ball rolling. As

described earlier, under “Performance of the Office,” we have worked with the Deputy Minister’s Council to start a government-wide initiative to improve accountability. Because this initiative is focused to a large extent on developing ways of measuring the outcomes of spending, we consider our involvement in it to be part of striving for our goal to improve organizational and program performance accountability.

The result of this work is contained in two reports, issued jointly with the Deputy Ministers’

Council: *Enhancing Accountability for Performance in the British Columbia Public Sector* (June 1995); and *Enhancing Accountability for Performance: A Framework and an Implementation Plan* (April 1996).

Effectiveness Initiative

To assist government managers to report on the effectiveness of their use of resources, we have provided guidance in the use of the Twelve Attributes of Effectiveness, a framework developed by the CCAF. This guidance comes in the form of numerous workshops, training and information sessions

AN EFFECTIVENESS WORKSHOP

On a clear, crisp morning in February, a group of people from the Ministry of Agriculture, Fisheries and Food gather in a meeting room in Abbotsford. They are there to find ways of measuring and improving their program performance. The effectiveness of the programs are examined from many different aspects, using a framework of questions and analysis. Two members of the Office are there to help the process. The discussions are frank, often humorous, sometimes sensitive. All through the process, which takes a day and a half, the Auditor General’s staff, along with a ministry facilitator, act as guides, provoking dialogue, questioning assumptions, and drawing out points of view.

The day begins with a review of management direction. Is everyone agreed on where the organization is going? Do we have a vision for the future? Do we have plans to get us there? Next, the topic of “relevance” is introduced. Is there an ongoing, legitimate need for our program? How do we know? The facilitators present a series of penetrating questions like these all through the day, always emphasizing achievement of objectives and always asking whether there is good information available to support the claims about performance and effectiveness. The next day we tackle stakeholder acceptance, working environment, program design, risk management, and several other issues.

By the end of the session there is agreement on what areas of program performance need to be measured and what areas need attention. In the weeks that follow the workshop, the participants will prepare a summary effectiveness report, identifying key performance measures and information gaps. The ministry will then use this information for its business planning; deciding where to place priorities, where to improve performance, and how to get better information.

Over the last four years, the Office has provided workshops like this to agencies that want to assess and improve their effectiveness using the “Twelve Attributes of Effectiveness” framework. This framework, which was designed in Canada, has gained acceptance around the world as a comprehensive tool for managers to use in assessing the overall performance of their programs.

THE TWELVE ATTRIBUTES OF EFFECTIVENESS

Management Direction

The extent to which the objectives of an organization, its management, and employees are clear, well integrated and understood, and appropriately reflected in the organization's plans and structure.

Relevance

The extent to which an activity continues to make sense in regard to the problems or conditions to which it is intended to respond.

Appropriateness

The extent to which the design of an activity and the level of effort being made are logical in light of the specific objectives to be achieved.

Achievement of Intended Results

The extent to which objectives have been realized.

Acceptance

The extent to which customers for whom an activity or line of business is designed judge it to be satisfactory.

Secondary Impacts

The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.

Costs and Productivity

The relationships among costs, inputs, and outputs.

Responsiveness

An organization's ability to adapt to changes in such factors as markets, competition, available funding, or technology.

Financial Results

The matching of, and the accounting for, revenues and costs, and the accounting for and the valuation of assets, liabilities, and equity.

Working Environment

The extent to which an organization provides an appropriate work atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative, and safety.

Protection of Assets

The extent to which important assets are safeguarded.

Monitoring and Reporting

The extent to which an organization monitors and reports on its own effectiveness.

Source: CCAF

to various organizations involved in education, taxation, natural resources, social services, and other government functions. Feedback has been positive. Many participants tell us that they gain a better understanding of strategic and management issues, and that the framework provides a constructive and forward-looking forum to deal with operational problems. From our point of view, the sessions provide us with an opportunity to acquaint staff and management with the idea of accountability to the Legislative Assembly, and to reinforce their awareness of the taxpayer as funder of the programs.

We have gained a great deal from delivering effectiveness workshops. The concepts in the framework are broad, and we quickly found that participants want to get down to more specific questions about performance. After we had facilitated a few workshops and talked to other people using the framework, we began to develop a list of the most commonly asked questions and issues. The list has evolved over the years, but has remained substantially consistent. This is, in part, a tribute to the accuracy of the framework itself in identifying the key areas of performance that need to be addressed. It also confirms the large area of common ground across all public sector programs. We have found that managers and staff struggle with the same issues in radically different sectors of government.

To illustrate how the questions posed by the framework have evolved, here is how our understanding of “relevance,” one of the key attributes of effectiveness,

has developed over the years. The original framework report defines it as “the extent to which an activity continues to make sense in regard to the problems or conditions to which it is intended to respond.” We found that while participants understood this rather abstract concept, they wanted more specific questions in order to deal with it, and they wanted to add other aspects of relevance, especially organizational relevance. In the early workshops we discussed these ideas, and many potential indicators of relevance were identified and discussed. The most successful questions evolved as follows:

- Is there a legitimate, ongoing need for our services? How do we know?
- Is there a good fit between the need and the services we provide?
- Should we be the providers of these services? Why?
- Are there any overlaps or gaps between our services and those provided by others?

These questions are penetrating, and our role as facilitators has been to challenge any hidden assumptions and to point to the need for evidence to support participants’ beliefs about the relevance of their programs.

Other questions have also been useful in specific situations, such as the fit between the mission of the agency and the strategic goals of government. However, these core questions have proved to be the ones that participants want to tackle in the workshops.

The purpose of the effectiveness workshops is to see if these are the best questions, to have government managers assess how they are doing, and to look at what information shortfalls exist. We believe that the workshops have been successful in bringing issues out in the open in an organized and constructive way, and have allowed senior managers to discuss strategic issues with their staff.

Several agencies in the province are using the framework. The Ministry of Agriculture, Fisheries and Food has committed to using it to improve performance and provide the increased accountability now being demanded of the public sector. The ministry asked us to assist in training ministry staff, and we have delivered more than 12 workshops in the ministry over the last two years.

Governance Initiative

To further contribute to improving government accountability, we are presently conducting a study that focuses on governance of Crown corporations. These corporations play a vital role in the economic and social fabric of the province, and they have complex governance relationships.

Crown corporations are involved in most sectors of the economy, with some, such as the British Columbia Hydro Power Authority and the Insurance Corporation of British Columbia, affecting the entire population of the province. Others, such as the Okanagan Valley Tree Fruit Authority and First Peoples'

Heritage, Language and Cultural Council, affect a more targeted population or, like the British Columbia Buildings Corporation, serve mainly government. Since 1991, several new Crown corporations have been established (for example, Forest Renewal BC), and others have been dissolved (for example, the Hazardous Waste Management Corporation and the British Columbia Petroleum Corporation).

Governance of Crown corporations is more complex than that of private corporations because of two main factors. First, in Crown corporations the responsibility for governance is limited to the board of directors. Legislation may provide for the board to share decision-making with Cabinet, Treasury Board, the Minister responsible, or the Minister of Finance. Even another Crown agency or a central agency such as the Crown Corporation Secretariat can have a powerful voice in decision-making for the corporation. This clouds the authority and responsibility relationships among government, its agencies, and a Crown corporation's board.

Second, the chief objective of a Crown corporation may be less clear and more multi-dimensional than that of a private corporations (namely, to create wealth for the shareholders). A Crown corporation may be expected not only to fulfill its legislated mandate or purpose, but also to meet various government public policy objectives. These may focus on the well-being of the population or on some vague economic measure related to development opportunities and

regional initiatives. Public policy objectives may or may not be congruent with the legislated mandate and must be incorporated and reconciled within Crown corporation strategies. This factor makes the setting of a clear direction—and through it, the provision of effective governance—more difficult for Crown corporations.

The limitations and restrictions on Crown corporations, the shared decision-making, and the broader range of objectives all combine to make governance a more difficult task in the public sector. Our study is examining this challenging governance environment within which the Province's Crown corporations operate.

We expect to report on our findings in September 1996.

Assessing Organizational and Program Performance Information

Progress Made with Accountability for Performance During the Year

For the Office to move successfully to an attest audit model from the direct model, we know that we need to experiment and gain experience in creating and validating broad-based performance measures. As described earlier in this report, we have been helping government organizations create performance measures through our workshops introducing the "Twelve Attributes of Effectiveness" framework. Other organizations have adopted the effectiveness framework in different ways, rather



Performance auditors discuss audit approach to take

than introducing it through the medium of workshops. Related to that, we have also gained insights into the development of the new audit methodology through review of an effectiveness report prepared by the BC Parks Department of the Ministry of Environment, Lands and Parks.

BC Parks Review

The BC Parks Department has used the framework to develop a public effectiveness report. In 1994 the department invited the Office of the Auditor General, along with the Office of the Comptroller General, to provide auditors' opinions on its effectiveness report. After consultation, it was agreed that these two Offices would assess the auditability of the report, and provide a review of the report for publication.

In reviewing the BC Parks report, we drew on the interpretation of the framework we had developed in workshops and practitioner seminars, and also on the publications of the CCAF, which designed and published the framework. We used these sources to assess what matters should be addressed in an effectiveness report. We then reviewed the report to assess its completeness, relevance, accuracy, and overall fairness. In doing so, we interviewed management and staff and gathered documentary evidence.

We found that the review did much to bring increased rigor and structure to the report, and helped both auditors and the agency develop better performance measures. We also gained insights into the challenges and

opportunities involved in auditing a broad set of performance measures. Most of all, we recognized the need for a consensus-based set of principles for performance measurement and reporting, and for an auditing methodology.

In February 1996, the Vision Task Force of the Canadian Institute of Chartered Accountants issued its report, setting out a new direction for the profession. It called for the profession to become a leader in creating, validating, and interpreting information that measures and enhances organizational performance. We believe the public sector of the profession has started down this road, and experiments such as the review of the BC Parks report will assist in the achievement of this vision.

Statement of Intent

Through the initiative conducted with BC Parks, and the effectiveness training provided across government, we are working to develop the capacity of public sector managers to account for their organization's performance, as well as the ability of our Office to audit their representations.

It is our belief that the systematic monitoring and reporting of performance by government contributes not only to improving its effectiveness, but also to supporting the Legislative Assembly's governance processes by providing information for decision-making.

To ensure that the information government provides to the Legislative Assembly and the public

is reliable, our Office is developing an audit methodology for verifying accountability information and providing decision-makers with assurance as to its reliability.

The development of attest audit methodology for non-financial representations is at the center of the efforts of a number of professional accounting associations and legislative audit offices. We are coordinating our research and development activities with those of other jurisdictions to ensure we remain at the forefront of this emerging audit methodology. In this way, we will continue to provide our constituents, the Legislative Assembly, government, and the citizens of British Columbia, with the highest standard of professional practice.

Directly Assessing Organizational and Program Performance

This year we completed two major performance audits at the British Columbia Ferry Corporation and one in the Ministry of Finance and Corporate Relations. We also undertook seven others that will be reported on in the 1996/97 year.

The completed Ferries audits examined the Corporation's fleet and terminal maintenance management and its operational safety. A single report covering both audits was issued in February 1996 as *1995/96: Report 2*. The completed audit in the Ministry of Finance and Corporate Relations assessed methods used to maximize social services tax revenues and methods used by the ministry to estimate

the size of the gap between tax revenues collected and those due.

The performance audits that are under way are examining trucking safety in British Columbia, the Vancouver Island Highway Project, child care spending in the province, executive severance practices in government, and the management of travel in government.

As well, our Office is continuing its practice of assessing and reporting on the performance of Crown corporations in British Columbia, with two performance audits currently examining how the British Columbia Transit Corporation markets its services and manages the efficiency of transit operators.

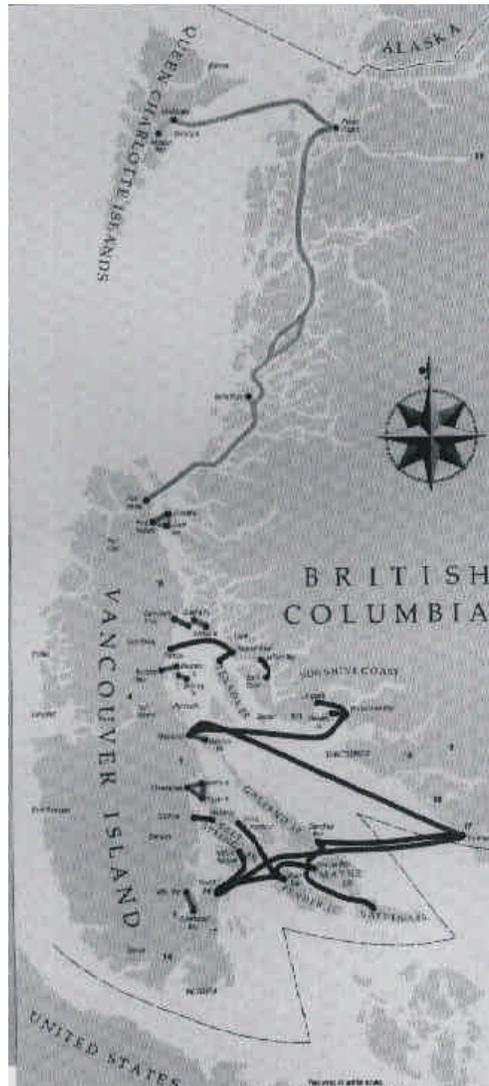
Audits Completed During the Year

British Columbia Ferry Corporation

BC Ferries operates one of the largest ferry systems in the world. At March 31, 1995, the corporation had 40 vessels serving 42 terminals on 24 routes (Exhibit 7). The system plays a key role in the province's coastal transportation network, providing linkages between communities along the mainland coast and between those on the mainland coast and Vancouver Island, the Queen Charlotte Islands, and many smaller islands lying in the Strait of Georgia and farther north. The continued success of the corporation relies on its conducting this extensive service in a safe and reliable manner. Safety and reliability were the focus of our two audits.

Exhibit 7

Route Maps of British Columbia Ferry Corporation



Source: British Columbia Ferry Corporation

Fleet and Terminal Maintenance Management

In our first audit we examined the corporation's maintenance for its vessels and terminals. We assessed the adequacy of the program and whether the corporation was measuring results achieved, including the extent to which value for money is obtained.

The audit concluded that the corporation's vessels, related equipment, and terminal assets (specifically, marine structures) are maintained so that they are operationally safe and reliable. However, the audit could not determine whether the corporation's maintenance activities are cost-effective because the corporation does not have the information necessary to permit such an assessment.

The corporation's maintenance program lacks certain elements required to ensure that vessels and terminal are being maintained in a cost-effective way. The corporation needs to clearly define objectives for its maintenance program, along with standards for asset condition, cost, and maintenance practices. In addition, the corporation needs to develop an information system to use in measuring costs and results of maintenance activities.

The corporation responded that it recognizes the need for better information about its maintenance program and is developing a system.

Operational Safety

The purpose of our second audit was to assess whether the corporation is meeting the

requirements for operating a safe coastal ferry transportation system. The audit focused on the safety of passengers, crews, vessels, and terminals, and on the prevention of damage to property.

The audit concluded that the corporation meets most of the requirements for operating a safe coastal ferry transportation system. At the same time, however, it identified a number of important areas where safety and administrative procedures should be improved. We were pleased to note that the corporation recognizes the need for these improvements and is moving to address them.

We pointed out in our report that, although we found a number of areas that needed attention, we do not believe the ferry system is unsafe. We were assured by the corporation's employees, surveyors with the Canadian Coast Guard, and insurance consultants that the corporation has a good safety record, and that the system is safe, given its diversity and complexity and the volume of passengers carried.

We believe that the corporation is committed to operational safety—as reflected in corporation plans, structure, policies and procedures, delegation of authority, and decision-making processes. The corporation's vessels carry emergency equipment required under the *Canada Shipping Act*, and kept in good working order. Terminals and vessels are staffed with employees who meet the organization's standards, and crews possess qualifications that are equal to or higher than those required by the *Canada Shipping Act*.

We recommended that the corporation give additional attention to three things. First, it should monitor emergency drills and practices system-wide, to ensure they are carried out consistently and according to federal regulations and corporate policies. Second, it should provide more training in some areas to ensure employees properly perform their assigned duties in emergencies. It should also assess whether crew size and capability are sufficient to deal with emergencies involving the number of passengers carried by its vessels. Third, the corporation should request a ruling from the Board of Steamship Inspection about its practice of operating its two northern overnight vessels with some interior watertight doors in the open position.

We noted that the corporation's implementation strategy for managing and evaluating its major operational safety initiatives is under development. These initiatives should allow the corporation to evaluate whether it is achieving its safety objectives, as well as providing its board of directors with additional safety information.

Revenue Verification of the Social Services Tax

The purpose of this audit was to assess whether the methods used by the ministry to maximize social service tax revenues, while maintaining the integrity of the tax administration system, are cost-effective, and whether the ministry is reliably estimating the size of the gap between tax revenues collected and those that are due.

The social service tax is a major source of revenue for government and contributes significantly to funding government programs. For the 1994/95 year, the Ministry of Finance and Corporate Relations collected about \$2.8 billion in social service tax. This represents about 24% of total provincial taxes collected and about 13% of total provincial revenues. It is, therefore, important that government collects the taxes it is entitled to. This involves having all eligible vendors register, collect the correct amount of tax on taxable sales, and remit all taxes collected on a timely basis.

The audit found that the ministry's methods for maximizing social service tax revenues and maintaining the integrity of the tax system are cost effective. The ministry provides sufficient information and education to taxpayers to ensure that they are aware of their responsibilities. Its enforcement staff conduct audits and inspections that identify non-compliance and unpaid taxes. This work is carried out according to clear and consistent strategies and appropriate procedures by qualified staff. However, the results of work in identifying unpaid taxes indicate that significant amounts of tax revenue, well in excess of the estimated cost of employing the additional resources required to find them, remain to be identified.

We also noted that there is also scope for improvement in a number of other areas which would assist the ministry still further in its efforts to use its existing resources in the most efficient way. First, the ministry has not made the most effective use of its powers to

prosecute offenders for non-compliance. However, to be able to counteract the recent growth the province has experienced in instances of serious non-compliance with the tax legislation, the ministry has recently developed policy options and made recommendations for legislative changes. Second, the ministry should improve its management information systems. Only with relevant and timely information can it more efficiently manage the program, and measure performance against objectives. Third, the ministry has not carried out extensive work on estimating the size and nature of the gap between taxes collected and those that are due although it has done some work in this area. It is not unique in this regard, as other tax jurisdictions are also exploring how to obtain this information. We encouraged the ministry to continue with its efforts in this area.

Finally, we concluded that the ministry should provide more information on its performance to the Legislative Assembly and the public.

Audits Under Way

Ministry of Transportation and Highways: Trucking Safety

This audit is assessing the extent to which the ministry's enforcement programs are designed and implemented to achieve their objectives in a cost-effective manner, and the extent to which the ministry has examined the impact of its enforcement programs on trucking safety relative to other enforcement alternatives.

Vancouver Island Highway Project

This audit is assessing whether the Ministry of Transportation and Highways has taken appropriate steps to ensure that the designs for the Vancouver Island Highway provide good value for money.

The audit is reviewing the planning and design process, in particular the measures to ensure cost-effective designs. It will also cover the technical standards and other guidelines established by the ministry for highway design, focusing on the process for updating the standards and on the flexibility permitted in adhering to the standards.

Management of Child Care Spending in British Columbia

The purpose of this audit is to assess whether the Ministry of Women's Equality is spending child care funds only for approved purposes, assessing the extent to which child care spending is achieving intended goals, and properly coordinating information for the cross-government BC 21 Child Care Expansion initiative.

Executive Severance Practices

This audit is examining the extent of severance costs resulting from the employment termination of senior executives within ministries and Crown corporations, and the adequacy of the accountability information on these costs provided to the Legislative Assembly. As well, the audit is trying to determine whether reasonable and consistent government-approved guidelines are in place to govern severance

payments within ministries and major Crown corporations, and whether severance packages comply with established guidelines.

Travel Management

This audit is assessing whether management of travel in the provincial government is done with due regard for economy and efficiency. Specifically the audit is examining the direction provided by government to its employees to ensure economic and efficient travel practices, as well as the travel arrangement mechanisms available to staff and alternatives to travel.

B.C. Transit Corporation: Using Operators Efficiently

The purpose of the audit is to determine how successful B.C. Transit managers are in using the time of the transit operators efficiently. Included in the audit is an assessment of the present level of efficiency in the use of operators, and of the controls and systems being used to maintain efficiency. The audit is also looking at efforts to improve efficiency, and the results achieved, and systems and procedures used to measure and report performance.

B.C. Transit Corporation: Being Market-Oriented

This audit is assessing how well B.C. Transit's marketing activities are allowing it to be market-focused and cost-efficient, and to maintain and enhance its market share. Specifically, the audit is examining what strategy B.C. Transit uses to guide marketing activities, how B.C. Transit learns about its current and potential markets, and how it meets customers' needs. As well, the audit is looking at whether marketing activities support the marketing strategy, whether marketing support services function well, and how well the corporation informs its stakeholders about its marketing activities.

Compliance Auditing

What are Compliance Audits?

Compliance audits provide an assessment as to whether or not legislative and related authorities, including codes of ethics or conduct, are being complied with, in all significant respects.

While sound financial management and the achievement of program results are important in government, the manner in which those results are achieved is also important. Government has to abide by the legislation that governs its activities and be fair, equitable and honest in the delivery of its programs. Usually, the rules for government performance in relation to these attributes are set out in legislation and other authorities. Such authorities govern the way public business is conducted and reflect general public expectations of the way government business should be carried on.

The aim of compliance auditing is to ascertain whether public sector activities are carried out within the scope of the authorities established for the proper conduct of public business.

Focus of Our Work

Government organizations have not to date been providing accountability information about their performance with respect to compliance with authorities and

propriety. Consequently, we undertake our compliance auditing using the direct reporting approach, gathering essential information on government performance and reporting it in two parts: a formal audit report showing the scope of the audit and our overall opinion on compliance; accompanied by a detailed explanatory report.

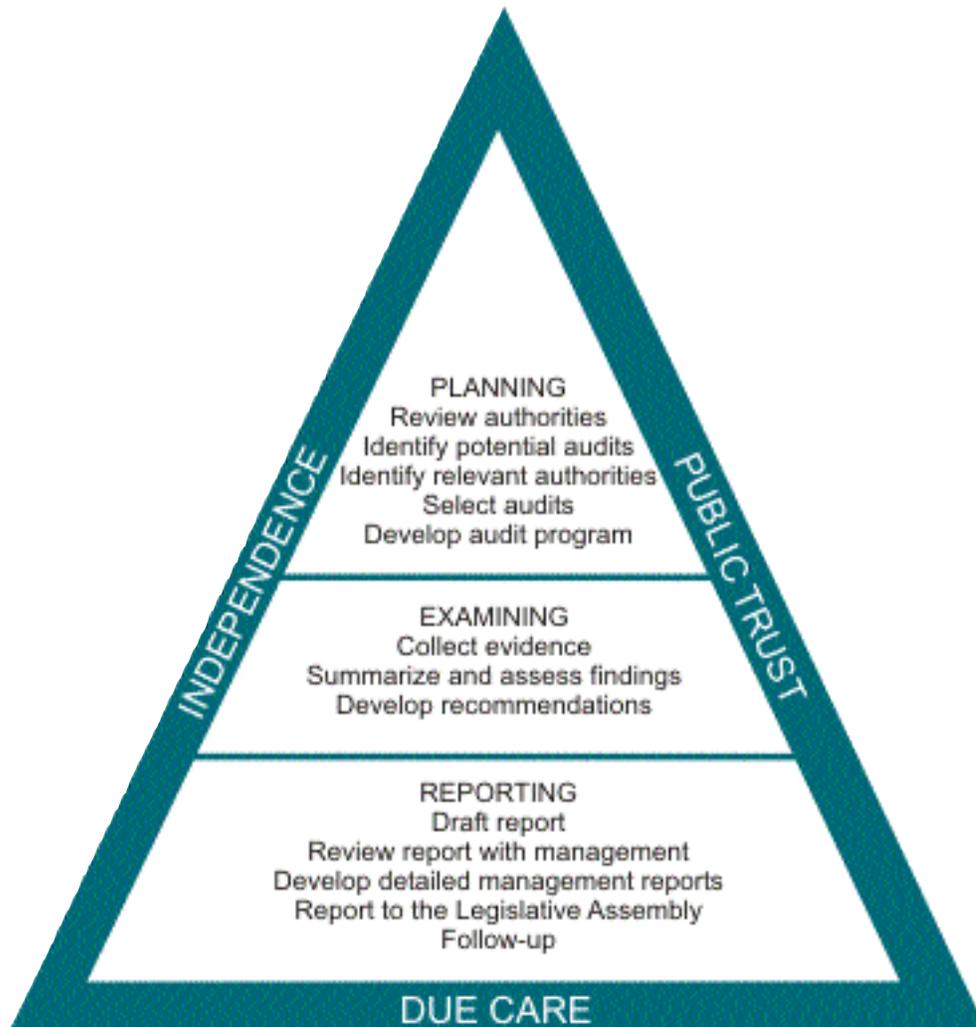
Our work focuses on whether there has been proper conduct of public business. This includes assessing whether government, including Crown corporations and other organizations, has complied with legislation, regulations, directives, and policies governing its activities in areas such as: safeguarding public assets, providing home support to the elderly and medically-infirm, environmental protection, public safety, taxation practices, disclosure of financial information to the public, protecting the privacy of health care and social service information, and proper ethical behavior in conducting the public's business.

Our compliance audits inquire into the following key procedural characteristics:

- Are legislative and related authorities properly identified and documented by the organization subject to them or responsible for their administration, and have these been communicated to pertinent staff?

Exhibit 8

Outline of the Phases of Compliance Audits



- Has the organization established policies and systems of internal control and monitoring to ensure compliance with the legislative and related authorities?
- Has responsibility been assigned for ensuring compliance with the authorities?
- Are the controls and monitoring working to ensure compliance with the authorities? How does the organization know (for example, internal audit)?
- Does periodic accountability reporting take place with regard to compliance with the authorities?

Our primary focus in compliance auditing is on actual compliance, the results, and secondarily on compliance processes.

Selecting Audits

All provincial legislation, regulations, and related authorities are included within the scope of authorities that we consider when selecting audits.

When selecting the audit subjects we will undertake, we base our decisions on the significance and interest of an area or topic to our primary clients, the members of the Legislative Assembly and the public. We consider both the significance and risk in our evaluation. We aim to provide fair, independent assessments of government's administration of the authorities, and to identify opportunities for improved performance.

We generally select specific sections in an Act or in several Acts, having common objectives. In most instances, we do not audit all aspects of an Act in one audit.

The primary legislative guide for administration of the financial affairs of the Province is the *Financial Administration Act*. Compliance with this Act is of regular and on-going significance to our Office. Other legislation and related authorities are considered for audit on a more cyclical basis, depending on factors such as: their impact on government, non-profit or private organizations, or the public; the significance of financial accountability reporting requirements; the degree of interest by legislators and the public; and

the likelihood and impact of non-compliance with legislated requirements.

Planning and Conducting Audits

Exhibit 8 illustrates the phases of compliance auditing and some of the main tasks involved at each stage. The core values of the Office—due care, public trust, and independence—are inherent in all aspects of the audit work.

Planning

The first phase of the audit involves selecting the aspects of an Act, regulation, or other authority to be examined, determining how the compliance will be measured, and completing an audit plan.

Conducting

During the examining phase, we collect evidence relating to the Acts or related authorities in question. We assess the information and review the findings with our audit clients. In our examinations, we seek reasonable assurance that the authorities specified in the audit report have been complied with, in all significant respects. There may be minor instances of non-compliance that either may not be detected by the audit, or may not be worthy of inclusion in the report. We exercise professional judgment when assessing the significance of non-compliance. Our main considerations in assessing significance include monetary value, the nature of the authority or finding, the context within which compliance is to occur, and public interest in the topic.

Legal issues subject to different interpretations often arise in compliance auditing. Therefore we seek professional legal advice, as needed, during the examining and other phases of an audit.

Reporting Audits

We discuss the draft reports resulting from our audits with the appropriate organizations and consider their comments before the public report is formally issued to the Legislative Assembly. The report is tabled in the Assembly and referred to the Public Accounts Committee, where it serves as a basis for the committee's deliberations and its own recommendations to the Legislative Assembly.

Our public report is in two parts: a formal audit report, showing the scope of the audit and our overall opinion on compliance, and a more detailed explanatory report. The overall opinion is the Auditor General's professional assessment of the extent of compliance with the authorities that were the subject of the audit. The more detailed report provides background information and an in-depth description of what we found. When appropriate, we also make recommendations as to how the issues identified may be remedied. The Office often also issues a detailed management report of our findings to the ministry responsible for the legislation, or to the organizations affected by it.

Without subsequent review, legislators and the public would not be aware of the nature, extent, and results of government's remedial actions. Therefore, we follow up annually with the

organizations responsible to obtain a status report on their progress in implementing recommendations. These status reports are included in our subsequent public reports. In addition, when it is useful to do so, the Office conducts follow-up audits.

Assessing Information About Compliance and Ethical Issues

To keep abreast of the latest developments in compliance-with-authorities auditing, the head of the Office compliance unit, Gordon Dawson, has participated in nation-wide studies in this field over the past several years. One such study, reported on in June 1993, by senior representatives from five of the legislative audit offices across the country and an official from the CICA, was an assessment of the state of compliance-with-authorities auditing. It in turn led to follow-up research being carried out by representatives from Newfoundland and Ontario, coordinated by the senior representative from our Office. The report on that work, issued in July 1994, was included on the agenda of the September 1995 Conference of Legislative Auditors (COLA), in Ottawa.

The 1995 report focused on four issues:

- "best practices" of compliance-with-authorities audit reporting in legislative auditors' public reports;
- accountability reporting with respect to compliance-with-authorities responsibilities;

- COLA compliance-with-authorities networking; and
- professional guidance about compliance-with-authorities auditing issued to date.

The main recommendation arising from this work was that the professional guidance provided by the CICA in its Public Sector Auditing Statement PS5300 needed updating, particularly in its guidance for reporting on compliance-with-authorities audits. The follow-up study group provided the CICA with several “new” sample compliance-with-authorities audit reports to consider.

It is this type of leadership initiative that the Office promotes to help the profession keep its standards and practices in step with the latest thinking and developments in the legislative audit offices across the country. Our Office is proud to participate in important initiatives like this that will have the effect of improving the practice of compliance-with-authorities auditing, and ultimately benefiting the members of the public for whom such auditing is conducted.

New Audit Manual

During the past year, the Compliance Auditing Unit produced a compliance-with-authorities audit manual to guide this form of auditing practice in the Office and for quality assurance purposes.

This professional auditing manual joins the Office’s family of audit manuals; the others being the financial auditing manual, and the value for money audit manual.

The compliance audit manual is composed of nine parts, each providing pertinent information and guidance to the auditor:

- Overview (of compliance-with-authorities auditing)
- Auditing Standards
- Planning
- Examination
- Reporting
- Quality Assurance
- Special Projects
- Fraud Awareness Guidelines
- Appendices (forms, contacts, and administrative details)

The manual is in two formats: a binder, for bookshelf reference by the audit staff; and a computer diskette version for auditors to use at offices where they are conducting audits.

The Auditor General offered to share this manual with public sector auditors in other legislative audit offices. To date, diskette copies of it have been requested by and provided to most of the other legislative audit offices in Canada, and the Australian National Audit Office.

Directly Assessing Performance for Compliance and Ethical Issues

Audits Completed During the Year

Five compliance-with-authorities projects were reported in our February *1995/96: Report 3*, and three in our June *1995/96: Report 5*. Included in Report 3

were updated responses related to recommendations of the Select Standing Committee on Public Accounts relating to our prior years' reports.

The five projects in Report 3 were all planned, performed and reported on within this fiscal year. The reports were given to the Speaker, since the Legislative Assembly was not sitting at the time, and released publicly on March 6, 1996. The reports consisted of two audits, two reviews, and one survey, and were as follows:

- an audit of the *Continuing Care Act and the Guaranteed Available Income for Need Act* and related regulation and policies, as they pertained to the delivery of home support services;
- a review of the environmental tire levies to determine the amount collected pursuant to the *Social Service Tax Act*, and the amount spent on tire recycling and disposal programs pursuant to the *Sustainable Environment Fund Act*, between July 1990 and July 1995;
- a survey of all Crown corporations, hospitals, school districts, colleges, universities and institutes to determine what record keeping systems exist to assist in safeguarding their moveable physical assets;
- a review of section 37 of the *Consumer Protection Act* and related regulation, which set out rules regulating tax refund discounting; and
- a follow-up on significant findings in two previous audits on compliance with the

expenditure provisions contained in Part 4 of the *Financial Administration Act*.

The three issues reported in Report 5 were planned during the fiscal year, and completed and reported shortly afterwards, in June 1996. These were all reviews, as follows:

- a review of the recommendations made by the Office, and comments by others, over the past several years, on the special warrants section of the *Financial Administration Act*;
- a review of the numbers reported as government employees, the impact of the *Financial Administration Act* on the numbers disclosed, and a summary of employees in the whole of government; and
- a review to determine if there were any existing guidelines to distinguish between government program communications and partisan political public communications.

We provided a number of recommendations based on each of these projects.

Home Support Services

Home support services are provided by the Ministries of Health and Social Services to persons who require help in managing their households or in caring for their children. Services provided include laundry, house cleaning, child care, grocery shopping and personal care.

This audit was conducted to determine whether sections of the

Continuing Care Act and the *Guaranteed Available Income for Need Act*, and related regulations and policies, that pertain to the provision of home support services, were being complied with. Our examination covered the period from January to June 1995, and specifically audited for compliance with those sections relating to:

- eligibility of applicants;
- income assessment;
- authorization of service; and
- payment for services provided.

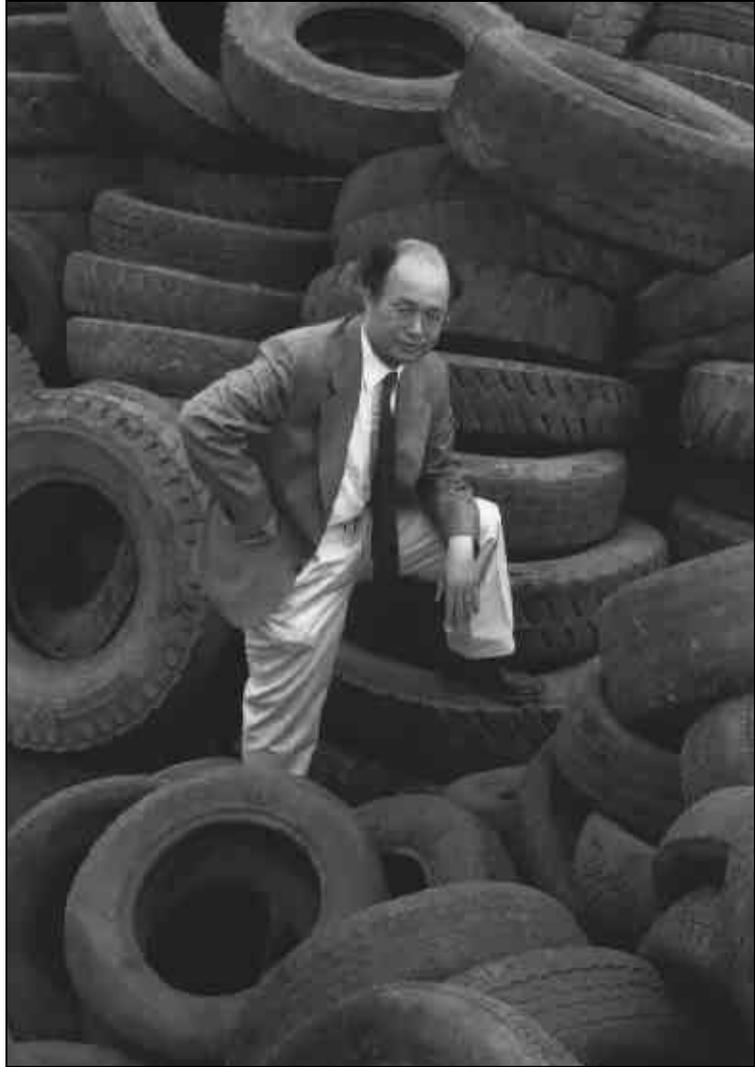
We found that there was satisfactory compliance, in all significant respects, except that the Ministry of Health policies requiring an annual reassessment review and a verification of the minimum period of residence, were not being satisfactorily complied with.

Environmental Tire Levy

Since July 1, 1990, a \$3 tire levy on most new tires for vehicles has been collected at the point of sale.

We performed this review to determine:

- what the requirements were for using tire levy revenue in tire recycling and disposal programs;
- how much tire levy revenue was collected between July 1990 and July 1995 and how much was spent of tire recycling and disposal programs pursuant to the *Sustainable Environment Fund Act* in the same period;
- whether all tire levy revenue was transferred to the Sustainable



Compliance auditor amid tires waiting to be recycled

Environment Fund and how much remained unspent as of July 31, 1995; and

- the extent of public disclosure of these revenues, expenditures and unspent balance.

We found that, since its inception, \$46 million of tire levies had been collected, with all but \$250,000 having been appropriately transferred to the Sustainable Environment Fund. While only \$18 million had been spent on tire

recycling and disposal programs, there is no legislated requirement to spend the tire levy only on tire-related programs. These funds are pooled with other moneys in the Sustainable Environment Fund, to be used to support environmental initiatives, including the tire recycling and disposal programs.

We found that the public reporting of the intended and actual use of the tire levy should be improved.

Safeguarding Moveable Physical Assets: Public Sector Survey

Most public entities require physical assets in order to meet their operational objectives. Many of these assets are small, easily moved, and are quite valuable. We estimated the total value of such assets to be approximately \$4.5 billion for all of the Crown corporations, hospitals, school districts, colleges, universities and institutes in the province.

We conducted a survey of 248 of these entities in September 1995, and asked questions concerning their record keeping systems which aid in safeguarding moveable physical assets. While such systems, by themselves, are not sufficient to safeguard assets, they are important to effectively safeguard assets.

Survey questions asked about the existence of legislative or policy requirements for safeguarding, if record keeping systems to safeguard assets were maintained, the type of information maintained, whether the assets themselves were marked, and the frequency with which assets were physically counted and the count reconciled to the asset records.

We also reviewed legislation and government policies to identify asset safeguarding requirements.

We found that, with the exception of the Ministry of Health's guidance to hospitals to maintain records identifying individual assets, none of the public entities had been provided with authoritative guidance by government on how they should safeguard their assets. Approximately one fifth of all entities did not maintain record keeping systems. For those that did, there were significant dissimilarities in both the extent to which similar types of assets are recorded and in the detailed information recorded. Additionally, a large proportion of entities are not conducting periodic counts of assets and reconciling these counts to the asset records.

Consumer Protection Act: Income Tax Refund Discounts

Section 37 of the *Consumer Protection Act* and related regulation set out the rules regulating the operations of income tax refund discounters. Requirements include the minimum amount which must be paid by the discounter to the taxpayer, the information the discounter must provide to the taxpayer and government, and the records which must be maintained. For 1994, it was estimated that over 99,000 tax returns with a refund value of over \$75 million were handled by tax rebate discounters operating in British Columbia.

We found that there was no provincial program in existence to administer this section of the Act. The federal *Tax Rebate Discounting*

Act was enacted within a year of the provincial Consumer Protection Act and contains more extensive regulatory provisions than does the provincial legislation.

We agreed with the Ministry of Housing, Recreation and Consumer Services that the federal legislation contains all of the requirements of the provincial legislation, and that federal officials are in a better position to monitor discounter activities and reporting. However, the ministry receives no information on these federal activities. We recommended they obtain periodic assurance from federal officials on the extent of monitoring of tax refund discounters and the extent to which the discounters are complying with the requirements.

Financial Administration Act, Part 4: Follow-up

We revisited the significant findings of two previous audits of compliance with the expenditure provisions contained in sections 20(1), 20(2) and 21(1) of the *Financial Administration Act*, that we conducted in 1991 and 1992.

Specifically we tried to ascertain whether:

- the annual Estimates of revenue and expenditure are prepared in a form directed by the Treasury Board;
- expenditures are applied to the correct votes; and
- the Minister of Finance and Corporate Relations has conducted a review of the interpretation and application of section 21 of the Act, and presented amendments to the

Legislative Assembly to address the concerns expressed by the Auditor General in his June 1992 Annual Report, concerning the use of special warrants.

We found that there was compliance in all significant respects with the first two objectives. However we found that the interpretation and application of section 21 (special warrants) of the Act had not been reviewed, nor had amendments to this section been presented to the Legislative Assembly.

Special Warrants

The *Financial Administration Act*, passed in 1981, provides for the use of special warrants. The Act requires that expenditures authorized by special warrant be those that were not foreseen or provided for or insufficiently provided for and were urgently and immediately required for the public good. Special warrants are used when the Legislative Assembly is not in session, and are approved by the Lieutenant Governor in Council.

Expenditures authorized by special warrants are highest in provincial election years. For years other than election years, the average annual spending authorization by special warrant since fiscal 1981/82 has been \$289 million.

Our Office has provided comments and recommendations on the use of special warrants in at least three of our public reports in the last 10 years. Official commentary has also come from political leaders and government

studies. The consensus generally is that reform of the practice of using special warrants is needed, particularly to ensure that the rights of Members of the Legislative Assembly are respected before government spends public money. The only way that reform is likely to occur is if the statutory authority for the use of special warrants is amended.

Government Employee Numbers

This study set out to answer the question “How many people work for the provincial government?” We found that government is following the *Financial Administration Act* as far as determining who should be counted, and is therefore counting the FTEs (full-time equivalents) of people employed under the Public Service Act. However, that does not correspond to the numbers of FTEs employed in central government ministries and special offices because there are a number of people employed under the Public Service Act who work outside central government, and a number of people not employed under the *Public Service Act* who are employed in government ministries. The consequence of this is that the number of FTEs that is published in the Estimates is not the true number of FTEs employed in central government, and thus does not correspond to the salary dollars shown in the same Estimates.

We also found that government is not keeping track of the numbers of FTEs in Crown corporations and agencies, and thus does not have a figure for the

number of FTEs employed in the whole of government. We believe that government should account for and report on all of its employee numbers.

Public Communications: Distinguishing Between Government Program and Partisan Political Communications

We carried out this review to determine if there were any existing government guidelines that distinguish between government program and partisan political public communications. As well as reviewing policy manuals for government of British Columbia, we also obtained information on this subject from the federal government, other provincial governments across Canada, the United Kingdom, New Zealand and Australia.

We found that the British Columbia government lacks established principles and guidelines for distinguishing between government program and partisan political advertising and communications; although we did find that for the Province’s elected officials, their Legislative Assembly Members’ Handbook prohibits the printing or mailing at the expense of the Legislative Assembly of any material of a partisan political nature.

We also found that other governments in Canada do not have any more thorough or detailed guidance on this matter. However, some of the Commonwealth countries that we surveyed do have guidance pertaining to this subject.

MOVEABLE PHYSICAL ASSET SURVEY—WHO KNOWS WHAT IS WHERE?

During the year we conducted a survey of 248 Crown corporations, school districts, hospitals, colleges, universities, and institutes. This represented the government-supported entities that use their own physical assets to meet their operational goals. Our focus was on those assets which are moveable, and are thus more susceptible to loss. In other words, property and buildings were not included in our scope.

Part of the survey process involved follow-up phone calls and letters where our initial survey requests had not been answered, or where we wanted more information. One entity had quite a unique explanation for not returning their survey. Apparently, it was because our survey form had been consumed in a fire that destroyed their entire facility. Fortunately, this entity maintained off-site records for its assets, and was able to file an insurance claim immediately after the loss. They also completed our survey when the smoke had cleared. Another entity reported that keeping records of their assets was a new procedure that they had adopted only after they too had experienced significant losses from a fire, for which they were unable to adequately support their insurance claim due to inadequate records.

These experiences emphasized for us the susceptibility that government faces in regard to loss of assets, and how imperative it is for entities to keep records.

With respect to such records, a wide diversity of survey responses were returned to us. At one extreme, a respondent stated that every single item they had purchased, right down to small stationery items such as binders and staplers, were individually tracked. Whereas another entity, relatively small in size, told us that they only maintained records of moveable assets costing more than \$10,000 each; needless to say, they didn't have very many records to keep updated. At another extreme, a respondent stated that everyone's systems were decentralized, nobody knew what they had, and any entity that indicated that they did, was lying. We resisted the urge to exercise any undue skepticism in reviewing the survey responses.

Status of Public Accounts Committee Recommendations Relating to Prior Years' Compliance-with-Authorities Audits

In January 1996 we obtained from ministries, for inclusion in our February 1995/96: *Report 3*, updated responses to the recommendations of the Select Standing Committee on Public Accounts, relating to our prior years' audits. The status of the acceptance and implementation of our recommendations by the Public Accounts Committee and management is summarized in that report.

Responding to Inquiries and Comments from the Public

During the year, a number of telephone calls, facsimiles and letters were received from the public and referred to the compliance unit for consideration. While all such communications are considered, we are not able to act on each one. Some matters are outside the scope of our Office, and for others, it is a question as to whether the information provided is specific enough, or important enough, to warrant diverting staff resources from our regular audit

work. Sometimes, it is possible to include such matters as part of a larger audit, perhaps at a later date.

In some cases, although it may be a matter that we consider important, we decide that a ministry or some other government organization is better suited to investigate. We do, however, request a report on any investigation, which we review to determine whether any further action by our Office is warranted.

During the year, issues raised in 38 letters, facsimiles, and telephone calls were considered. In addition, 6 issues raised in prior years were brought forward to 1995/96 for consideration. Except where the caller or writer was anonymous, we responded to each item received. The 44 issues and their disposition are analyzed as follows:

- Twenty issues were determined to be outside the jurisdiction of the Office. Suggestions were made as to where the complainant might turn.
- Four issues were referred to the appropriate ministry for investigation. Three of these investigations are now complete, and we consider that appropriate action has been taken where necessary.
- Four issues were resolved after an investigation by our Office. In three cases, the allegation was found to be incorrect. In the other instance, although the alleged incident had occurred as reported to us, it was not fraudulent or in contravention of policy, as the caller had believed.

- Twelve issues were either not specific enough for us to act on, or were dropped after initial inquiries had been made. One of these has been recorded for possible inclusion in a larger audit at a later date.
- Four issues are still being looked into by our Office, one as part of a larger audit.

The Office is responsible to, and reports to, the Legislative Assembly. The Office cannot undertake to report the results of any specific investigation back to an informant. Informants are told that because the information may be incorporated into our ongoing regular audit activity, the lack of any public report referring to an investigation does not mean that action is not being taken. If the Office investigates and considers the matter worthy of reporting, it will be done in a public report.

Making a Difference

In each of our projects, whether they be an audit, a review, or a survey, we make observations on the extent of compliance with the authorities in the area subject to our work. Arising out of these observations, we also make suggestions and recommendations. The recommendations are for the purposes of improving compliance with the authorities, improving operational effectiveness of the entity responsible for ensuring compliance, or providing for improvements to the legislative or related authorities.

The Select Standing Committee on Public Accounts decides which of the subjects included in our public

reports they wish to discuss with us. They then consider and discuss our findings and recommendations with us, and with the senior government officials responsible for the subject areas included in our report. If they decide to endorse our recommendations, they include them in the committee's own report to the Legislative Assembly.

Following that, each year we request the management of the organizations responsible for the programs which were the subject of our work to provide us with updated responses to the recommendations endorsed by the Public Accounts Committee. The responses are supposed to indicate whether the recommendations have been implemented, are in the process of being implemented, or otherwise.

Our reports published during the five years preceding 1995/96 contained 105 recommendations. Of these recommendations, most, 96%, have been endorsed by the Public Accounts Committee. Implementation of the recommendations by management

is also very much in progress. According to government officials, up to January 1996, 28% of our recommendations had been implemented, another 71% were in process of being implemented, and for only 1% had no action been taken.

We often find that government officials want to study an area more extensively themselves before implementing recommendations on particular aspects of their operations.

We provide an updated status report on all of the Public Accounts Committee's recommendations relating to our prior years' projects in our annual public report on compliance-with-authorities audits. That section of the report gives details of the actual recommendations and their endorsement by the committee, as well as the latest official response from the organization responsible for the program involved.



Program Support

Staff Development and Professional Liaisons

Legislative auditors throughout the world are facing increasingly complex challenges. We regard staff as our main asset and, accordingly, we meet these challenges by undertaking an extensive program of staff training and professional development in all aspects of legislative auditing. In addition, we assist the legislative auditing profession by developing expertise in the areas unique to the public sector. During the year, each staff member received an average of 25 hours of professional development and training.

Our professional development program follows three main streams: students, professionals, and information technology. Our students are enrolled with the Institute of Chartered Accountants of British Columbia, the Certified General Accountants Association of British Columbia, or the Society of Certified Management Accountants. They also receive instruction on matters specific to the work of our Office, coupled with an extensive on-the-job training program. Four of our students received their professional accounting designations in the past year.

Our professionals undertake programs to develop their expertise in financial statement attest, value-for-money, and compliance-with-authorities auditing. The programs

comprise courses in advanced technical and management subjects and communication skills. Our Information Technology Services Group coordinates and presents basic and advanced computer and Electronic Data Processing (EDP) auditing courses to our staff. Our staff also attend outside courses, seminars, and conferences on subjects relating to their areas of professional interest.

In addition to the training that is unique to our Office, our employees receive training in government-wide initiatives. All staff members have been trained in the principles of employment equity and in the awareness and prevention of sexual harassment in the workplace.

Exchange Program

The Office participates in exchange programs with other legislative audit offices throughout Canada and overseas. This year we completed an exchange that began last year with the National Audit Office in London, England, where our Assistant Auditor General, Compliance-with-Authorities Audit Unit, Gordon Dawson, spent the year participating in audits and studying the latest techniques in compliance auditing. In return, this year one of the National Audit Office managers, Bill Burnett, came

to work with us in our Performance Audit Unit.

Secondments

The Office has been participating in a secondment program for many years now. During the year, seven staff members filled a number of temporary vacancies in ministries and Crown corporations. All our secondees had both university and professional training, and their special expertise was appreciated by the government entities they served. For their part, our staff members welcomed the opportunity to sharpen their line management skills and to become more familiar with the operating aspects of government ministries and Crown corporations.

Visitors to Our Office

During the year we had visitors from all over the world; from here in Canada (the federal Office of the Auditor General) to the United States, the Netherlands, Kenya, China, Nepal, Malaysia, New Zealand, and Australia.

Most of these were senior staff from other legislative audit offices looking for information about how we do our work. We are pleased to contribute to the development of improved auditing techniques, on a national and international scale, by devoting time to answering questions that visitors raise. This exchange of ideas helps us to keep up with what is going on in other jurisdictions.

Staff Retirements

Two of the original employees of the Office retired from the Public Service during the past year. Jean Bell, Senior Executive Secretary, retired in June 1995. Jean was recently honored at Government House, where she received a certificate in recognition of her 25 years of service with the Province. Phyllis Prince, Clerk Stenographer with the Office for close to 19 years, retired in May 1996. Both of these employees will be greatly missed, as they made valuable contributions to the Office ever since its formation in 1977.

Other Comings and Goings

Ten new staff members were recruited during the year to fill vacancies. Most of the staff who left the Office took up positions in the public sector. While it is always difficult to lose members of our staff, we feel a sense of accomplishment when our staff move into other responsible positions.

We also continued our association with the University of Victoria Cooperative Education Program by employing four business program students, each for four-month work terms.

Association and Committee Memberships

The Office is involved with professional and other associations whose activities are relevant to our work. These organizations include the following:

- Institute of Chartered Accountants

- Certified General Accountants Association
- Society of Certified Management Accountants
- Institute of Certified Management Consultants
- CCAF (former Canadian Comprehensive Auditing Foundation)
- Canadian Evaluation Society
- Information Systems Audit and Control Association
- Financial Management Institute of Canada
- Institute of Internal Auditors
- Institute of Public Administration of Canada
- Law Society of British Columbia

The Auditor General, George Morfitt, is the 1995/96 Chair of the Public Sector Auditing and Accounting Board of the Canadian Institute of Chartered Accountants. He also serves as a Governor of the CCAF and a member of the Foundation's Governance Advisory Group.

As well, several of our staff are executive or committee members of the organizations listed above, and others are involved in research and technical projects. In this regard, mention should be made of the following:

- Frank Barr, Assistant Auditor General, member of the Government Organization Task Force of the Public Sector Auditing and Accounting Board, member of the Not-For-Profit Advisory Committee to the Accounting Standards Board—



Auditor General staff participate in Bike to Work Week

both of the Canadian Institute of Chartered Accountants, and member of the Local Government Affairs Sub-committee of the Institute of Chartered Accountants of British Columbia

- Gordon Dawson, Assistant Auditor General, Coordinator of the study group of the Canadian Conference of Legislative Auditors for compliance-with-authorities audits, and Office representative for the Institute

of Internal Auditors, and for the Investigative and Forensic Accounting Interest Group of the Canadian Institute of Chartered Accountants

- J. Peter Gregory, Assistant Auditor General, member of the Research Committee of the CCAF
- Endre Dolhai, Senior Principal, member of the Membership Committee of the Institute of Chartered Accountants of British Columbia
- Terence P. Mackian, Senior Principal, member of the Practice Review and Licensing Committee, Chair of the sub-committee on practice review cycle implementation, and member of the Presidential Nominating committee—all of the Institute of Chartered Accountants of British Columbia, and Vice-President of the Financial Management Institute, Victoria Chapter
- Errol Price, Senior Principal, Vice-President of the Victoria Regional Group of the Institute of Public Administration of Canada (IPAC), Victoria Regional Group representative on the IPAC national board, and member of the planning committee for the 1996 IPAC national conference
- Russ Jones, Principal, member of the environmental management and interest group of the Canadian Institute of Chartered Accountants
- Les McAdams, Principal, member of Council of the Institute

of Certified Management Consultants of British Columbia

- Ian Davies, Senior Project Leader, member of the External Advisory Panel to the President of the Treasury Board of Canada on Reporting to Parliament
- Fred Heard, Computer Services Manager, President of the Information Systems Audit and Control Association, Victoria Chapter
- Ken Lane, Senior Project Leader, member of the environmental management and interest group of the Canadian Institute of Chartered Accountants
- Margaret Parkinson, Coordinator of Student and Professional Development, member of the Communications Committee of the Institute of Chartered Accountants of British Columbia
- Derek Cockburn, Auditor, member of the Board of Directors of the Certified General Accountants Association of British Columbia, Southern Vancouver Island Chapter

Canadian Conference of Legislative Auditors

The Canadian Conference of Legislative Auditors (known as COLA) is an association of auditors general and provincial auditors from the federal and provincial jurisdictions of Canada. Meetings are held at least annually, so that those actively involved in legislative auditing can exchange information and experiences.

CCAF

The CCAF (formerly known as the Canadian Comprehensive Auditing Foundation) is a national association established to help strengthen management, accountability, and auditing in the public sector. Its interests extend to all organizations that are sustained by public funds to carry out public policy objectives.

The foundation's work concentrates on: the ways in which managers can ensure that good value for money is obtained from their administrative practices; the manner in which managers report their accountability for achieving economy, efficiency, and effectiveness; and the role that audit plays in reporting.

The Office has been a member and supporter of the CCAF since its formation in 1980. The Auditor General is an elected member of its board of governors.

Public Sector Accounting and Auditing Board

The Public Sector Accounting and Auditing Board (PSAAB) was formed in 1981 by the Canadian Institute of Chartered Accountants to develop, recommend, and gain acceptance of accounting, financial reporting, and auditing standards for the public sector. The board's goals are to improve accountability in the public sector and to encourage the harmonization of financial reporting and the provision of better information for government



Auditor General staff proudly display Emily Carr print awarded for charitable efforts

decision-making. It is made up of senior executives and experts involved in financial reporting and the auditing of governments and other public sector entities.

To date, the board has issued four accounting statements and three auditing guidelines. These now serve as authoritative references for those involved in accounting and auditing at the federal, provincial, and local levels of government throughout Canada. As well, several major research projects are in progress.

The Office actively supports the work of PSAAB, which is having a positive impact on government financial reporting in Canada. Our Auditor General, George Morfitt, is currently PSAAB's Chair.

Community Service

Our staff continue to be involved in volunteer work and fund raising with many charitable, service, and community organizations, including Volunteer Victoria, Girl Guides of Canada, and various church groups. Our annual gift auction has raised over \$18,000 in the past seven years for Christmas charities. This regular event has proven to be a gratifying experience for both the receiving charities and our staff. Again this year we have also achieved a 100% participation rate by our employees in the Provincial Government Employees' Community Services Fund. As our Office size is relatively small, we are proud of the achievements, commitments, and generosity of our staff in community service.

Information Technology

The overall trend of information technology has been to standardize audit tools to achieve maximum efficiency. Our computer Services Group supports the Office's use of this technology by ensuring that each of our computers is at a level capable of running the necessary audit tools.

Platform

In 1995, government's Chief Information Officer laid the ground work for establishing cross-government directions and standards for information technology products. These standards will help improve the effectiveness of service delivery to the Office, in its ability to access both other ministries' information databases and internal information.

Support Services

The Computer Services Group is responsible for providing timely and expert information technology services to the Office. It does this in several areas: Help Desk, Network, Communications, Information Systems, and Desktop Publishing. Some of the achievements that occurred in each of these areas during the 1995/96 fiscal year are detailed below.

Help Desk Services

Information Technology Support

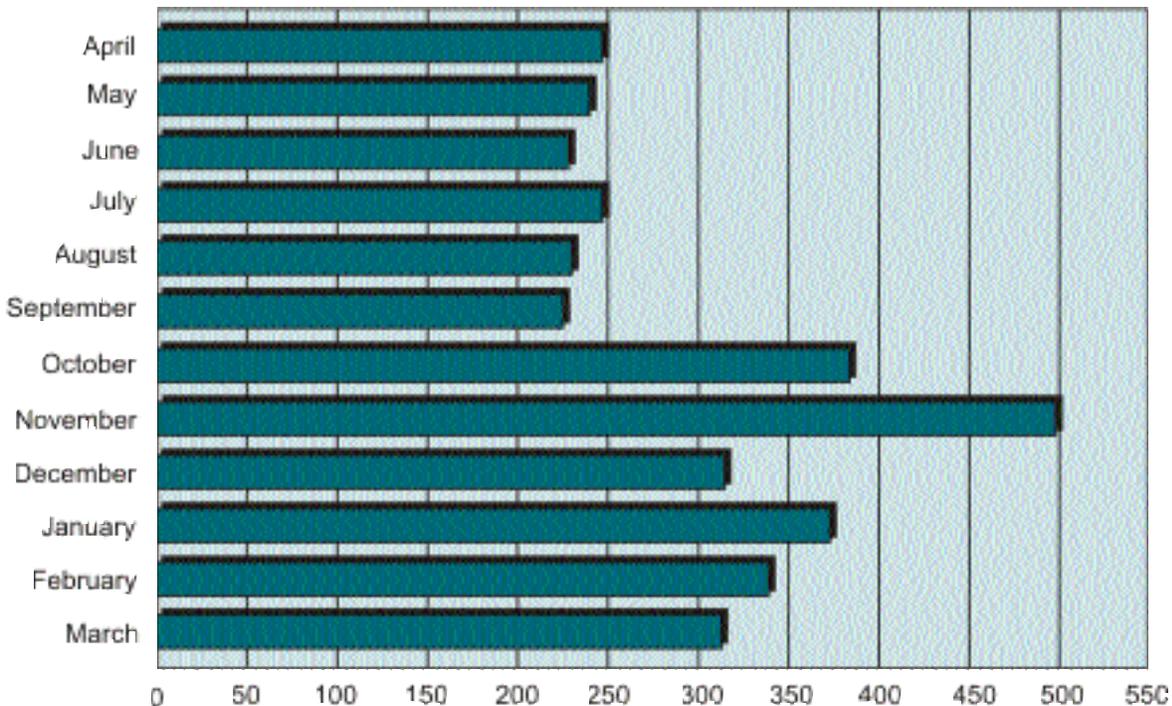
During 1995, the Help Desk received more than 3,500 service calls from Office staff. In view of the increasing number of service calls and limited resources, call tracking functions and procedures were reviewed with the aim of improving their efficiency. The service call database was expanded and automated to reduce the amount of time required to log and track each service call. This computerization has saved the Office many hours of manual call logging and filing and reduced paper usage drastically, enabling the Help Desk to concentrate on handling management information requests more promptly.

One function of the Help Desk is to distribute new microcomputer software applications. With the implementation of a central software distribution program called Norton Administrator, the Help Desk was able to meet tight implementation target dates to ensure that all staff are using the most up-to-date version of each program.

As Exhibit 9 shows, the last quarter of 1995 was a busy time for the Help Desk. The increase in service calls coincided with the installation of upgrades to the desktop, word-processing and

Exhibit 9

Help Desk Service Calls 1995/1996



spreadsheet programs throughout the Office. Earlier in 1995, electronic scheduling and bulletin board programs were introduced for use in the Office.

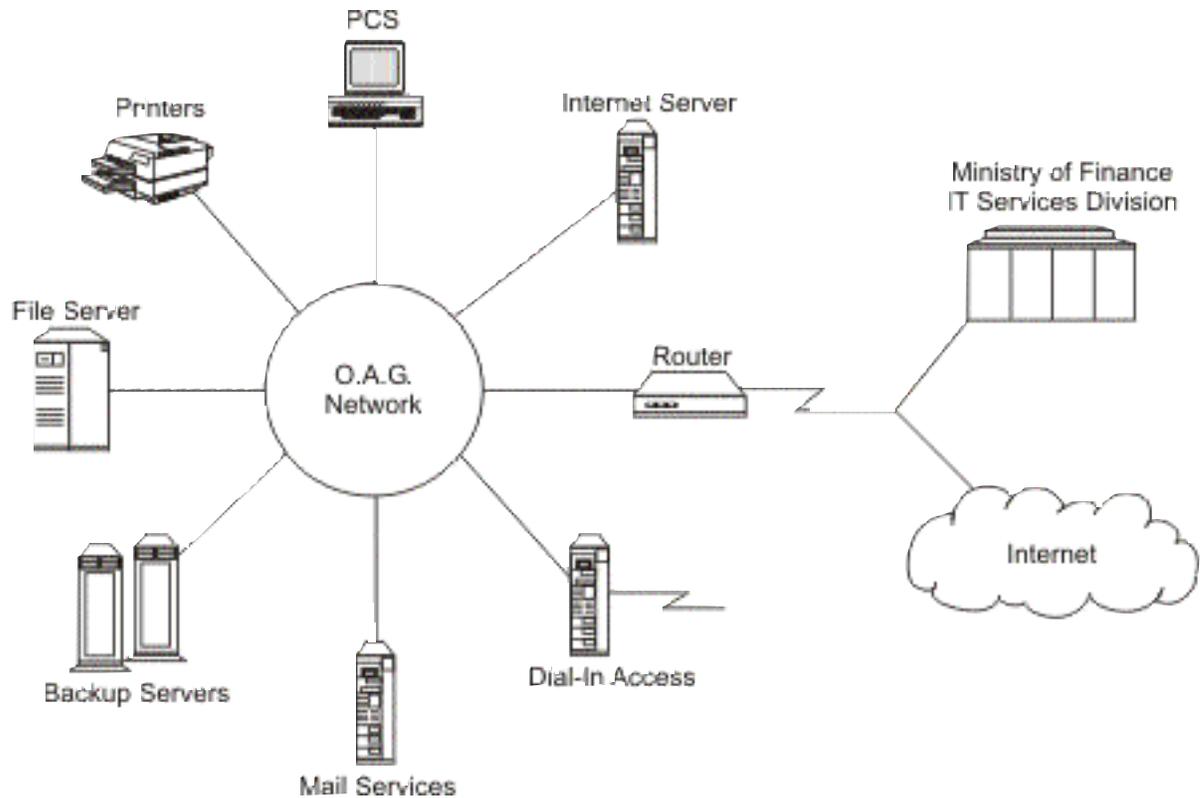
Information Technology Research

With the increasing complexity of computer programs and user requests, the Help Desk sometimes needs to conduct research to resolve a problem. In the past, this research usually involved lengthy long-distance telephone calls and many hours searching for information. To

eliminate the long-distance costs and reduce the amount of time required to resolve a problem, electronic reference material is now being used whenever possible. Internet resources, manufacturer's bulletin board systems, and CD-ROM based technical manuals all combine to provide a wealth of knowledge to the Help Desk. This "electronic approach" to problem resolution has allowed the Help Desk to complete the necessary research in a fraction of the time formerly taken for this function.

Exhibit 10

Office of the Auditor General Network 1996



Staff Proficiency, Literacy, and Training

The Help Desk is also responsible for providing staff training and promoting increased awareness of microcomputer issues. As staff call the Help Desk, many of their questions and problems are resolved with “just-in-time” training. This type of training gives staff more information about their microcomputer and complements the formal classroom training that is also provided. The

combination of formal and informal training ensures that staff retain and use their new skills in their daily work.

Network Services

The computer network of the Office is at the heart of our efforts to provide staff with the information technology they need to deliver services that are tailored to the changing needs of the Office (Exhibit 10).

During 1995/96 the network throughput and data storage capacity have been significantly increased by the replacement of our main server and its backup and archiving components. These changes resulted in a 12% increase in access time, greater overall network availability (projected at 97%, the remainder is required for repairs and software/hardware upgrades), and a doubling of our on-line data storage capacity.

Internet access from every computer in the Office and from the field has been provided by the addition of a router to our link with the Ministry of Finance Information Technology Services Division (ITSD). An Internet server has also been set up at our site to provide electronic access to all reports published by the Office.

The Office's e-mail service coupled to GEMS (Government E-Mail Services) is also a significant component in the Office's strategy of increased access. This service processes an average of 2,750 messages a month to or from the Office.

Two satellite offices, one at the Ministry of Finance and the other at the Superannuation Commission building, are currently accessing our Office's network through dial-in access. Work is in progress to tie all three sites into a wide area network using existing leased lines or government's fiber optic Wide Area Network (WAN).

Communications Services

Internet Access

Over the last year staff were provided Internet access to government databases and other electronic information sources. This helped improve the planning and conducting of audits.

Internet Home Page

In 1995 the Office set up an Internet Home Page to give the public electronic access to Office reports. It currently averages 400 accesses a month.

Information Systems Services

Time Management System

The ongoing development of a Time Management System will help the Office by providing timely and thorough management information about the cost of our audits.

Corporate Human Information Payroll System (CHIPS)

Last year CHIPS (a government-wide initiative) replaced a former manual leave recording system and an outdated government payroll system. This has enabled the Office to have more timely and accurate management reports.

Presentation Technology

Although the presentation technology available in the Office has not changed since last year, it continues to be an integral part of presenting audit findings to ministries and the Public Accounts Committee.

Desktop Publishing Services

The Office produces a number of external reports throughout the year. To maintain confidentiality of the reports before tabling and control costs, a desktop publishing position was established within the Office in 1995. The primary purposes of this service are to:

- ensure the effectiveness of our public communication by improving the readability and appearance of the reports while maintaining consistency;

- complete reports on a timely basis;
- save production costs of the reports; and
- make the reports available on the Internet the day they are tabled in the Legislative Assembly, thus ensuring wide distribution.

These reports are also printed by the Queen's Printer and are available from our Office or the Crown Publications service.



Appendices

Appendix A

Auditor General Act

Interpretation

1. In this Act

“ministry” means a ministry or branch of the executive government of the Province;

“public body” means

- (a) an agency of the Crown;
- (b) a board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown;
- (c) a corporation, more than 50% of the shares or ownership of which is, directly or indirectly, vested in the Crown; or
- (d) a corporation, association, board, commission or society to which a grant or advance of public money is made, or the borrowings of which may be guaranteed by the Crown under the authority of any Act;

and all other words have the same meaning as they have in the *Financial Administration Act*.

Appointment, salary, term and pension

2. (1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to the chief judge of the Provincial Court of British Columbia.

(5) The Auditor General shall be reimbursed for reasonable traveling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10.1), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act* applies and he is entitled to a superannuation allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsection (7), (8) or (9),

- (a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service.
- (b) [Repealed 1988-52-1.]

(10.1) Subsection (10) does not apply to the calculation under section 6(5) of the *Pension (Public Service) Act*.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

Resignation, removal or suspension

3 (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

(2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

- (a) suspend the Auditor General, with or without salary; or
- (b) remove the Auditor General from his office

in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this Act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

Acting Auditor General**4. (1) Where**

- (a) the Auditor General is suspended or removed or the office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative Assembly before the end of that session; or
- (b) the Auditor General is suspended or the office of Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

- (a) on the appointment of a new Auditor General under section 2;
- (b) at the end of the period of suspension of the Auditor General; or
- (c) immediately after the expiry of 20 sitting days after the day on which he was appointed

whichever the case may be and whichever occurs first.

Staff

5. (1) The Auditor General may appoint, in accordance with the *Public Service Act*, a deputy Auditor General and other employees necessary to enable him to perform his duties.

(2) For the purpose of the application of the *Public Service Act* to this section, the Auditor General shall be deemed to be a deputy minister.

(3) Notwithstanding the *Public Service Act*, the Auditor General may engage and retain specialists and consultants as may be required to carry out his functions, and may determine their remuneration.

(4) [Repealed 1985–15–19, effective March 2, 1987 (B.C. Reg. 248/86).]

(5) The Auditor General may make a special report to the Legislative Assembly where

- (a) the amounts and establishment provided for the office of the Auditor General in the estimates; or
- (b) the services provided to him by the Government Personnel Services Division,

are, in his opinion, inadequate to enable him to fulfill his duties.

Examination of accounts

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

- (a) shall be given access to the records of account and administration of any ministry; and

- (b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

Report on financial statements

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the Financial Administration Act, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

- (a) whether he has received all of the information and explanations he has required; and
- (b) whether in his opinion, 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 and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

Annual report

8 (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to

anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

- (a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;
- (b) essential records have not been maintained;
- (c) the rules, procedures or systems of internal control applied have been insufficient;
 - (i) to safeguard and protect the assets of the Crown;
 - (ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;
 - (iii) to ensure that expenditures have been made only as authorized; or
 - (iv) to ensure the accuracy and reliability of the accounting data; or
- (d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

- (a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose

of fair presentation and disclosure; or

- (b) as to whether any program being administered by a ministry is being administered economically and efficiently.

Trivial matters

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

Submission of annual report

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

Special report

11. The Auditor General may at any time make a special report

to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

Other reports

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

Special assignments

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

Staff in ministries

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

Inquiry powers

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

Public bodies

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

- (a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;
- (b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and
- (c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.

(2) Notwithstanding any other Act, the Auditor General

- (a) shall be given access to the records of account and administration of any public body; and

- (b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

Eligibility as auditor

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

Transfer of audit duties

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on a person to conduct an audit.

Audit of accounts of Auditor General

19. (1) The Treasury Board shall appoint an auditor to audit the accounts of the office of Auditor General annually.

(2) The auditor appointed under this section shall certify the accounts of the office of Auditor General that he finds to be correct and shall report the result of his audit to the Speaker, who shall present it to the Legislative Assembly.

Appropriation

20. Money required for the purposes of this Act shall be paid out of money authorized by an Act of the Legislature.



Appendix B

Fundamental Operating Principles: Officers of the British Columbia Legislature

Officers of the Legislature occupy a unique and valued position in the Westminster model of democratic governance. They each play an important role in the process of holding the government accountable to the Legislative Assembly and the public. They are the elected Members' representatives—in large measure their eyes and ears—in monitoring and assessing government programs, procedures, and performance. It is essential, therefore, that the roles of Legislative Officers are safeguarded and the discharge of their duties facilitated.

It also is important that all those involved in the process of democratic governance—legislators, the government, public servants, the public, and the legislative Officers themselves—understand and acknowledge the fundamental principles in accordance with which the Officers are expected to carry out their legislated mandates. Those fundamental principles are described briefly below.

Legislated Mandate and Authority

Officers of the Legislature should have their mandates and duties set out clearly in legislation, along with the authority needed to discharge their responsibilities. Each Officer is appointed by the Legislative Assembly to carry out, independent from government, particular duties. It is essential that the mandate and authority of each Officer be incorporated in legislation passed by the Legislative Assembly.

Independence and Accountability

Officers of the Legislature should have the legislated authority to investigate as and when required to discharge their duties, and the ability to report directly to the Legislative Assembly. It is important that this authority be provided in a manner that is as unfettered from government influence as possible. The independence of Officers must not be impaired by government controls exercised over them, or as a result of controls and other requirements relating to the management of their offices. The Legislative Assembly has a responsibility to ensure that the Officers' independence from government is established clearly in legislation, and is maintained both in fact and in appearance.

Personal Independence

Officers of the Legislature, at the time of their appointment, should have the declared support of all Members of the Legislative Assembly. Officers must have the confidence of the legislators to whom they report to be effective in carrying out their mandated responsibilities.

Officers of the Legislature should have assured tenure in office to protect them from government influence and interference. Legislation should provide appointments for terms certain, with removal of Officers for cause or incapacity only.

Officers of the Legislature should have their remuneration and employment benefits guaranteed in legislation. Compensation of Officers should be in keeping with the senior nature of their responsibilities and related directly to that received by persons in positions of comparable responsibility within the public sector.

Officers of the Legislature should be protected by legislation from legal action for exercising their duties in good faith. As it is the Legislative Assembly that establishes in legislation the role and responsibilities of each of the Officers, it is appropriate that there be legislated provision protecting the Officers, and any persons appointed, hired or engaged by the Officers, from legal action for exercising those duties in good faith.

Managerial Independence

Officers of the Legislature should have the annual estimates

of expenditure for their Offices reviewed and approved by a committee of the Legislative Assembly before they are presented to the Assembly for approval. It is appropriate for government officials to act in an advisory capacity during the budget preparation and approval process.

Officers of the Legislature should have sufficient independence from government administrative controls to ensure that they can organize, staff and manage their offices, and engage outside expertise, as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

Accountability

Officers of the Legislature should be accountable directly to the Legislature for carrying out their legislated responsibilities and for the administration of their offices.

Officers of the Legislature should be subject to independent audits of their offices.

Officers of the Legislature should conduct their work fairly, objectively and with due care. These attributes serve to ensure the Officers' independence is used in the public interest, and to preserve the integrity of the Offices.

Reporting

Officers of the Legislature should report to the Legislative Assembly at least annually on anything that they consider should be brought to the attention of the Assembly resulting from work undertaken in the performance of their duties.

Officers of the Legislature should submit their reports directly to the Legislative Assembly through the Speaker, as they are officers and servants of the Legislature.

Officers of the Legislature should issue reports to the Legislative Assembly as frequently as is deemed appropriate by the Officers to ensure that the Legislature receives information from its Officers on a timely basis.

Access to Information

Officers of the Legislature should have legislated access to all information and explanations needed to carry out their mandated responsibilities.

Officers of the Legislature should have legislated authority to examine persons under oath, as much of the information obtained by Officers in the conduct of their work is acquired through oral evidence and may not be capable of substantiation by written or other corroborative means.

Confidentiality

Officers of the Legislature should keep confidential, except as required to perform their mandated duties, all information obtained in the performance of their work. Similar constraints should apply to persons appointed, hired or engaged by the Officers. The *Freedom of Information and Protection of Privacy Act* should not apply to the operating records of the Officers, including all working papers and other evidential material obtained in performing their mandated duties.



Appendix C

Our Commitment to Service

We are committed to maintaining the trust and confidence of those we audit and those who rely on our work by:

- approaching our work in a fair and constructive way;
- providing accurate, reliable assessments and sound advice; and
- conducting and reporting our work in a manner that builds strong relationships.

Service Standards

The Office of the Auditor General is committed to the following standards of service:

Approaching Our Work in a Fair and Constructive Way

We will audit matters that are of significance and interest to those who rely on our work.

We will be impartial and objective in conducting our audits.

We will judge government accountability information and performance against reasonable expectations.

We will base our assessments on the accountability principles or performance standards used by government where these are judged to be appropriate.

We will attest to the fairness and reliability of accountability

information provided publicly by government where that information is available and complete.

We will conduct our audits in a way that enables us to provide positive assessments where warranted and will report the reasons for our reservations where we are unable to provide positive assessments.

We will offer sound, practical recommendations for improving performance.

We will issue our audit reports on a timely basis.

Providing Accurate, Reliable Assessments and Sound Advice

We will conduct our audits in accordance with professional auditing standards using sound auditing methodologies and techniques.

We will conduct our audits using personnel having the knowledge and competence required for the audit, including a thorough understanding of the type of organization and operations under review.

We will provide reliable, evidence-based assessments and advice, ensuring our audit criteria or performance standards, findings and conclusions, and advice for improvement are well-founded and supported.

We will report all matters of significance to those who rely on our work.

We will subject our audit reports, work and methodologies to rigorous quality assurance processes.

Conducting and Reporting our Work in a Manner That Builds Strong Relationships

We will be honest and forthright in all of our dealings with those we audit and those who rely on our work.

We will keep all information obtained in the performance of our work confidential, except as required to perform our duties under the *Auditor General Act*. (*The Freedom of Information and Protection of Privacy Act* does not apply to the audit records of the Office, including all audit working papers).

We will communicate openly throughout an audit with management responsible for the matters under review by:

- meeting with management at the start of an audit to establish a communication plan for the assignment;
- discussing the terms of the audit assignment with management at the start of an audit, including the objective and scope of our work;

- discussing our audit plan with management including the audit criteria or performance standards to be used; and
- discussing with management our findings, analysis, conclusions, recommendations and draft report.

We will provide management with an opportunity to publish a response to our audit along with our report where we have assessed government performance directly.

We will organize our work to allow government staff to participate in our audits with a minimum of disruption to their regular, ongoing duties.

We will welcome and respond to any comments, suggestions or queries from legislators, the public or government managers.



Appendix D

Government Entities and Trust Funds Audited by the Auditor General

Entities Included in the Summary Financial Statements

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Health Research Foundation

British Columbia Liquor Distribution Branch

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

Columbia Power Corporation

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Forest Renewal BC

Health Facilities Association of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

Other Entities

British Columbia Institute of Technology

Legal Services Society

Provincial Employees' Community Services Fund

Simon Fraser University

University of British Columbia

University of Northern British Columbia

University of Victoria

University Foundations:

Simon Fraser University Foundation

The University of British Columbia Foundation

University of Northern British Columbia Foundation

Foundation for the University of Victoria

University of Northern British Columbia Pension Plan

Workers' Compensation Board Superannuation Fund

Trust Funds

BC Rail Ltd. Pension Plan

British Columbia Hydro and Power Authority Pension Plan

British Columbia Public Service Long Term Disability Plan

College Pension Plan

Members of the Legislative Assembly Superannuation Plan

Municipal Superannuation Plan

**Province of British Columbia
Pooled Investment Portfolios:**

Active Canadian Equity Fund

Active U.S. Equity Fund

British Columbia Focus Fund

Canadian Money Market
Fund ST1

Canadian Money Market
Fund ST2

Canadian Money Market
Fund ST3

Corporate Bond Fund

Customized U.S. Equity Fund

Indexed Canadian Equity Fund

Indexed Government
Bond Fund

**Managed International
Equity Fund**

**Passive International
Equity Fund**

Realpool Investment Fund

S & P 500 Index Equity Fund

TSE 100 Index Equity Fund

Public Service Pension Plan

Teachers' Pension Plan

**Workers' Compensation Board of
British Columbia**

Westel Pension Plan



Appendix E

Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the Public Accounts

Entities Included in the Summary Financial Statements

B.C. Community Financial Services Corporation

B.C. Festival of the Arts Society

B.C. Health Care Risk Management Society

B.C. Pavilion Corporation

B.C. Summer and Winter Games Society

BC Transportation Financing Authority

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Hazardous Waste Management Corporation

British Columbia Heritage Trust

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

British Columbia Railway Company

British Columbia Rapid Transit Company Limited

British Columbia Systems Corporation

British Columbia Trade Development Corporation

British Columbia Transit

Discovery Enterprises Inc.

Downtown Revitalization Program Society of British Columbia

First Peoples' Heritage, Language and Cultural Council

Insurance Corporation of British Columbia

Okanagan Valley Tree Fruit Authority

Pacific National Exhibition

Pacific Racing Association

Provincial Rental Housing Corporation

Science Council of British Columbia

Victoria Line Ltd. (formerly British Columbia Steamship Company [1975] Ltd.)

Trust Fund

Credit Union Deposit Insurance Corporation of British Columbia



Appendix F

Audit Reports Issued 1991 to 1996

1995/96

Report 1: Report on the 1994/95 Public Accounts, Province of British Columbia

- Audit of the Government Financial Statements
- Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations
- Improved Accountability Through Better Information
- Provincial Debt: Comments on Its Reporting
- Financial Highlights
- New Corporate Accounting System: Update
- Income Assistance Payment System
- BC 21 Community Projects Program

Report 2: Performance Audit

British Columbia Ferry Corporation:

- Fleet and Terminal Maintenance
- Management Operational Safety

Report 3: Compliance-with-Authorities Audits

- Home Support Services
- Environmental Tire Levy

- Safeguarding Moveable Physical Assets: Public Sector Survey
- *Consumer Protection Act*—Income Tax Refund Discounts
- *Financial Administration Act* Part 4: Follow-up

Report 4: Performance Audit

Ministry of Finance and Corporate Relations:

- Revenue Verification for Social Services Tax

Report 5: Issues of Public Interest

- Special Warrants
- Government Employee Numbers
- Public Communications: Distinguishing Between Government Program and Partisan Political Communications

1994/95

Report 1: Value-for-Money Audit

- Purchasing in School Districts

Report 2: Value-for-Money Audit

- Provincial Agricultural Land Commission

Report 3: Report on the 1993/94 Public Accounts, Province of British Columbia

- Audit of the Government Financial Statements

- Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations
- Improved Accountability Through Better Information
- Provincial Debt: Comments on Its Reporting
- Financial Highlights
- New Corporate Accounting System: Update
- Public Funding of Non-government Organizations
- Public Funding of Non-government Organizations Through the Sale of Breakopen Lottery Tickets
- Medical Services Plan: Claim Payment Systems

Report 4: Value-for-Money Audit

Ministry of Finance and Corporate Relations:

- Management of Government Debt

Report 5: Compliance-with-Authorities Audits

- *Elevating Devices Safety Act*
- *Travel Agents Act*
- *Financial Administration Act: Guarantees and Indemnities*
- *Land Tax Deferment Act*

Special Report

- A Review of Contracts Between NOW Communications Group Inc. and the Government of British Columbia

1993/94

Report 1: Value-for-Money Audits

Ministry of Environment, Lands and Parks:

- Habitat Protection Function
- Regulatory Process for Special Waste

Report 2: Value-for-Money Audits

Ministry of Advanced Education, Training and Technology:

- Accountability Relationship of the Ministry With the Science Council of British Columbia
- Ministry Role in the College System

Report 3: Report on the 1992/93 Public Accounts, Province of British Columbia

- Audit of the Government Financial Statements
- Audit of Financial Statements of Government Entities and Trust Funds
- Improved Accountability Through Better Information
- Provincial Debt: Comments on Its Reporting
- Financial Highlights
- New Corporate Accounting System: Update
- Revenue Accounting Policies
- Pension Information and Payment System
- Improving the Financial Accountability of School Districts

Report 4: Compliance-with-Authorities Audits

- Statutory Tabling Requirements
- Safeguarding Moveable Physical Assets
- Treatment of Unclaimed Money

Report 5: Value-for-Money Audits

Ministry of Health:

- Transfer of Patients from Riverview Hospital to the Community
- Psychiatrist Services

1992/93**Report to the Legislative Assembly of British Columbia on the 1991/92 Public Accounts**

- Audit of the Government Financial Statements
- Audit of Financial Statements of Government Entities and Trust Funds
- Public Accounts Committee: Recommendations on the 1990/91 Public Accounts
- Financial Highlights and Comment on Accounting for the Deficit

1993 Annual Report**Financial Audits:**

- Provincial Treasury — Controls Relating to the Management of Investment Portfolios
- Legislative Precinct — Expenditure Controls

Value-for-Money Audits:

Ministry of Government Services:

- The British Columbia Archives and Records Service

Ministry of Energy, Mines and Petroleum Resources:

- Natural Gas Royalty Revenue

Ministry of Attorney General:

- Public Gaming: Licensing and Control

Compliance-with-Authorities Audits:

- Compliance with the *Financial Disclosure Act*
- Order-in-Council Appointments
- Compliance with Part 3 of the *Financial Administration Act*
- Compliance with the *Tobacco Tax Act*
- *Financial Information Act*: Follow-up
- Small Acts

1991/92**Report to the Legislative Assembly of British Columbia on the 1990/91 Public Accounts**

- Audit of the Government Financial Statements
- Audit of Public Body Financial Statements

1992 Annual Report**Value-for-Money Audits:**

Ministry of Social Services:

- Programs for Independence
- Residential Services
- Managing Professional Resources

Ministry of Forests:

- Human Resource Needs and Allocation

Compliance, Control, and Accountability Audits:

- Compliance with Part IV of the *Financial Administration Act* and its Related Regulations
- British Columbia Year of Music
- Crown Societies

Ministry of Attorney General:

- Family Maintenance Enforcement Program

Ministry of Environment, Lands and Parks:

- Purchase of Environmental Laboratory Services

Office of the Public Trustee:

- Internal Control Review

Liquor Distribution Branch:

- General Computer Controls

Office of the Comptroller General:

- Government Payroll Office

1990/91**1991 Annual Report****Financial Audits:**

- Comments Arising from the Audit of Government Financial Statements
- Comments Arising from the Audit of Public Bodies, Including Statutory Pension Plans

Value-for-Money Audits:

Ministry of Forests:

- Monitoring of Forest Roads
- Monitoring of Timber Harvesting
- Monitoring of Major Licensees' Silviculture Activities

Ministry of Transportation and Highways:

- Highway Planning
- Protecting Roads and Bridges
- Monitoring of Maintenance Contractors
- Minor Capital Construction and Rehabilitation Projects

Compliance, Control, and Accountability Audits:

- Compliance with the *Financial Information Act*, Regulation, and Directive
- Compliance with Part IV of the *Financial Administration Act* and its Related Regulations
- Expenditure Review: Board of Internal Economy
- The Industrial Incentive Fund: An Audit of the Loans Process
- Performance and Security Bonding



**Ministry of Finance and
Corporate Relations:**

- External Settlement/
Safekeeping Services for
Long-Term Bond Portfolios

**Ministry of Social Services and
Housing:**

- Child Day Care Subsidy
Program

**Update on Preceding Year's
Study:**

- Accountability of Crown
Corporations to the Legislative
Assembly





Appendix G

Audited Statement of 1995/96 Office Expenditures

GREEN, HORWOOD, MUNRO

CHARTERED ACCOUNTANTS

THIRD FLOOR 308 FORT STREET
VICTORIA, B.C. BRITISH COLUMBIA
V8N 3G4
TELEPHONE (604) 380-5388
FAX (604) 380-5384

July 12, 1996

AUDITOR'S REPORT

The Legislative Assembly
Province of British Columbia

In accordance with the provisions of Section 19(2) of the Auditor General Act, S.B.C. 1979, Chapter 24 we have audited the Statement of Expenditures - Vote 2, of the Office of the Auditor General of British Columbia for the year ended March 31, 1996. This financial statement is the responsibility of management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the expenditures of the Office of the Auditor General of British Columbia for the year then ended in accordance with the stated accounting principles set forth with the Public Accounts.

Green Horwood Munro & Tucker
Chartered Accountants

OFFICE OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

STATEMENT OF EXPENDITURES

FOR THE YEAR ENDED MARCH 31, 1996

	<u>1996</u>	<u>995</u>
TOTAL OF VOTES 2 FOR THE YEAR	<u>\$ 7,289,006</u>	<u>\$ 7,253,100</u>
EXPENDITURES		
Salaries	4,862,379	4,551,196
Supplementary salary costs	28,155	32,000
Employee benefits	1,022,194	<u>949,757</u>
	5,912,728	5,532,953
Travel expense	317,334	285,521
Professional and special services	169,340	129,523
Data processing	244,649	212,493
Office expense	148,857	146,556
Advertising and public relations	48,660	17,817
Office furniture and equipment	27,343	151,217
Equipment rental		1,651
Building occupancy charges	541,791	439,125
Data and word processing services	48,113	150,679
Grant	<u>27,311</u>	<u>50,599</u>
TOTAL EXPENDITURES BEFORE RECOVERIES	7,696,444	7,577,654
Less: Recoveries Note	<u>128,414</u>	2,400
NET EXPENDITURES	<u>\$ 7,674,027</u>	<u>\$ 7,563,208</u>

NOTES TO THE STATEMENT OF EXPENDITURES

NOTE 1 RECOVERIES

Recoveries are recorded on the utilization of a former bill. Telephone contracts are recorded on an accrual basis.

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