



AUDITOR GENERAL

1995 ANNUAL REPORT

*A Review of the Activities
of the Office*



British Columbia Cataloguing in Publication Data

British Columbia. Office of the Auditor General.
Report of the Auditor General. — 1978 —

Annual

Report year ends Mar. 31.

ISSN 0708-522 = Report of the Auditor General

(Victoria)

1. Finance, Public — British Columbia — Accounting —
Periodicals.

HJ9921.Z9B73

354'711'007232

Additional copies of this report
may be obtained from:
Office of the Auditor General
8 Bastion Square
Victoria, B.C.
V8V 1X4
Telephone: (604) 387-6803



1995 Annual Report of the Auditor General



Contents

Auditor General's Comments	1
Office Direction	1
Better Public Financial Information	2
Government Accountability	2
Effectiveness Measurement	3
Effective Governance	4
Government Compliance with Authorities	4
Environmental Auditing	5
Audit Reports Issued	5
 Descriptions of Audit Programs	
Financial Audit Program	9
Purpose of Financial Auditing	9
Processes for Examining Financial Statements	9
Processes for Reviewing Internal Controls	11
Financial Work Reported During the Year	12
Future Financial Audit Activities	18
Value-for-Money Audit Program	19
Purpose of Value-for-Money Auditing	19
Nature of Value-for-Money Audits	19
Value-for-Money Audit Process	20
Value-for-Money Work Reported During the Year	22
Future Value-for-Money Activities	27



1995 Annual Report of the Auditor General



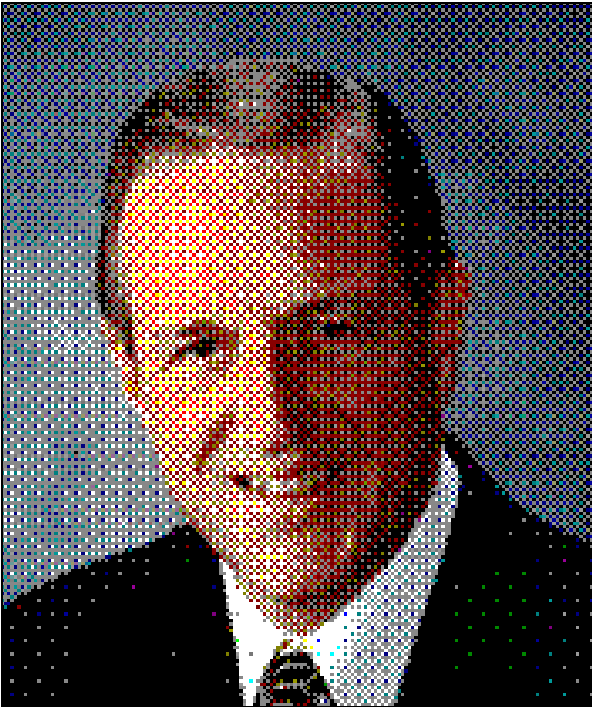
Contents (continued)

Compliance-with-Authorities Audit Program	28
Purpose of Compliance-with-Authorities Auditing	28
Nature of Compliance-with-Authorities Auditing	28
Compliance-with-Authorities Audit Process	29
Compliance-with-Authorities Work Reported During the Year	32
Future Compliance-with-Authorities Audit Activities	35
Special Projects	37
Information About the Office	41
Role and Responsibilities of the Auditor General	41
Operation of the Office	43
Staff Training and Professional Development	48
Professional Activities and Affiliations	50
Appendices	
A Auditor General Act	55
B Government Entities and Trust Funds Audited by the Auditor General	61
C Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the Public Accounts	63
D Audit Reports Issued 1990 to 1995	64

Auditor General's Comments



Auditor General's Comments



Office Direction

This has been a very active year for me as Auditor General. As anticipated in my last annual report, I am currently in the process of finalizing a strategic plan to guide the activities of the Office for my second term. In so doing, I have undertaken consultations with the stakeholders of the Office—Members of the Legislative Assembly and others—to determine their expectations.

I am pleased that a Memorandum of Understanding is now in place between the Minister of Finance and Corporate Relations and my Office with respect to the appointment of auditors and the charging of audit fees.

I believe this Memorandum is significant as it gives me, as the Legislative Assembly's representative, an ability to influence the audit process applied in the British Columbia public sector. It also provides the structural basis needed to initiate some of the more substantial provisions of my Office's strategic plan. I believe the provisions included in the Memorandum will serve legislators, the public and the government well, and I will be working closely with the government, public sector entities and the auditing profession over the coming months to ensure that the terms of the agreement are implemented in a way that achieves the intended benefits.

I expect that my main focus will continue to be on the three pillars of government auditing:

- financial
- value-for-money
- compliance-with-authorities

To improve public sector performance and accountability, I and my staff are committed to assisting the development of public sector auditing and accounting standards through significant

contributions to the Canadian Institute of Chartered Accountants and the Canadian Comprehensive Auditing Foundation, including participation on various professional boards and committees, and provision of written comments on professional discussion papers as they are issued.

With respect to maintaining my Office's performance and accountability, and ensuring that taxpayers receive added value from the work of my Office, I will continue to review the methodology being used to conduct audits in the public sector.

Better Public Financial Information

Over the last few years, in my reports on the Public Accounts, I have urged the government to improve its financial reporting by providing complete information about its activities in a simple and comprehensive way. In this regard, I have recommended that public information about the government's overall financial position should be taken from the summary level financial statements, and that comparative information about the Province's fiscal condition—including key trends and indicators—be presented in the Public Accounts in a form that is condensed and easily understood.

I am pleased to see that the government is following up on these recommendations. In particular, I note that, in its Budget '95 documents, it provided more information about debt than it had before, including key financial indicators. It has also undertaken to prepare an annual Debt Management Progress Report which, at the government's request, I have agreed to audit.

That report, together with other financial information the government plans to include in an Annual Report issued with the Public Accounts, should substantially improve the quality of financial information available to the public.

Government Accountability

In my previous Annual Report, I renewed my commitment to ensuring that the Legislative Assembly and the people of British Columbia get the information they need to assess government's performance. I described a major initiative to examine accountability practices in the Province's public sector, and I promised to report my findings this year.

The results of this work have been encouraging. I have found that politicians and public servants are as concerned as I am about accountability. Most agree that the time has come to measure and

report on results of government programs, rather than on activities undertaken and on money spent. I believe that focusing on results will do much to bring about continuing improvements in government's performance.

Given the high degree of interest expressed in accountability, I saw the possibility of achieving real change by having all interested parties work together to develop and implement a comprehensive accountability framework that could be used as a basis for public sector accountability, and thus be of enduring value to governance in our Province.

Accordingly, rather than simply issuing a report setting out my views on the subject, I have undertaken to work jointly with a committee of senior public servants to design a performance measurement and reporting framework. Our goal is to integrate that framework with processes, at the government organization level, for planning and management and, at the government-wide level, for strategic planning and for budgeting and controlling expenditures. The work has been progressing well, and will, I believe, when completed, provide a solid foundation for achieving future improvements in the accountability of government. A status report of the work to date is to be issued in July 1995.

I anticipate that, in my next Annual Report, I will be able to report that politicians, public servants and I have reached agreement on an appropriate, comprehensive accountability framework for the whole of government, and that implementation is underway.

Effectiveness Measurement

In support of the goal of results-focused accountability, I have over the last several years been encouraging government organizations to focus more on their overall effectiveness. This I have done in part by promoting the "Twelve Attributes of Effectiveness" model developed by the Canadian Comprehensive Auditing Foundation (CCAF). An excellent tool for managers to use in assessing their own performance, this model provides much of the information needed for good public accountability reports. This makes it an important element in the drive for more accountable government.

This year, my staff has continued to coordinate meetings and workshops with representatives from government entities that have shown an interest in improving performance measurement.

Effective Governance

Effective governance is governance in which boards of directors, or their equivalents, exercise good leadership in directing the activities of an organization. Having it is a key step in achieving better accountability and better performance by government agencies.

The need for good governance has been recognized world-wide. Among the many agencies that have examined and reported on the matter in recent years are the Treadway Commission in the United States (1992), the Committee on the Financial Aspects of Corporate Governance in the U. K. (Cadbury Report, 1992), and the Toronto Stock Exchange Committee on Corporate Governance in Canada, which last year issued its report, *Where Were the Directors? Guidelines for Improved Corporate Governance*. Further guidance on the subject in Canada has been issued by the Canadian Institute of Chartered Accountants in the form of several publications on corporate governance, including the May 1995 draft document, *Guidance for Directors*.

My Office's membership in the Canadian Comprehensive Auditing Foundation enables me to contribute to the Foundation's work on improving governance in the Canadian public sector. For my part, in the coming year, I intend to bring the principles of effective governance to the attention of the boards of Crown corporations, as well as to agencies in the health and education sectors.

Government Compliance with Authorities

Over the last three years I have devoted a portion of my Office's resources to assessing whether government agencies are fully complying with their guiding legislation and related regulations. This attention has resulted in numerous recommendations for ways to improve operational effectiveness of compliance systems and procedures, and to provide for amended or new authorities. These have been very well received by both the government officials concerned and the legislators.

One of the contributions made by my staff, shortly after resources were assigned to this function, was a series of professional development courses on "Compliance with the Financial Information Act." This course was presented to more than 550 individuals at 8 different centres around the Province, and included a session for caucus research staff at the provincial legislative buildings. This is another example of the successful involvement of my staff in a process designed to improve the functioning of government.

Environmental Auditing

Over the last decade, our society has developed a more complete understanding of the importance of sound environmental practices and sustainable development. In keeping with this, my staff are developing and maintaining the professional skills that are required in areas such as environmental management and reporting, and environmental accounting and auditing. My Office also maintains ongoing communication with other professional organizations in this field provincially, nationally and internationally, and participates actively in the Environmental Management and Reporting Interest Group of the Canadian Institute of Chartered Accountants.

Consistent with our efforts to improve accountability reporting by government, we endorse initiatives such as the State of the Environment Report and recommend regular reporting by government on the environment and sustainable development in the Province.

A number of our audits in recent years have included resource issues, such as forestry practices, and environmental protection and regulation. As Auditor General of British Columbia, I plan to continue my emphasis on environment and sustainable development.

Audit Reports Issued

This year I have issued six public reports:

- a report on the 1993/94 Public Accounts of the Province, which also includes a number of internal control reviews,
- three reports on value-for-money topics,
- a report on four compliance-with-authorities issues, and
- a report reviewing the government's contracts with NOW Communications Group Inc.

The recommendations contained in these reports have, for the most part, been readily accepted by government managers. This, in turn, has led to changes that have contributed to the improvement of the management and control of resources, and better reporting of financial and accountability information.

This, my Annual Report for 1995, is an overview of the work of my Office for the past year. As such, I have included brief summaries of the above reports in each of the program sections of this report. In addition, I have included, at the end of each program section, an indication of audits that are now underway and likely to be reported in the coming year.

I wish to thank the officers and staff of the ministries and public bodies audited by my Office for their helpful assistance and cooperation. I also extend my appreciation to the staff of my Office for the professional manner in which they have carried out their audit responsibilities on behalf of the people of British Columbia.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
June 1995



Descriptions of Audit Programs



Financial Audit Program

PURPOSE OF FINANCIAL AUDITING

Financial auditing carried out by the Office has two main elements. The first is carrying out examinations of financial statements, to provide an opinion as to whether they fairly present the subject matter they deal with. The second is carrying out reviews of internal control systems, to assess whether or not the systems are designed and operated with sufficient effectiveness for the purposes they serve.

As well as these two activities, the Financial Auditing Division also provides informed commentary and analysis on matters relating to financial auditing, accounting, and control. Some of this commentary may appear in the Office's public reports, where we may try to provide information on important issues that are, or should be, of concern to legislators and the public. In other cases, the division prepares position papers and other documents that set out our views on accounting and auditing matters for the benefit of those who set the standards for financial reporting and auditing and other interested parties.

PROCESSES FOR EXAMINING FINANCIAL STATEMENTS

Under the *Auditor General Act*, the Auditor General is required to report annually to the Legislative

Assembly on the financial statements of the government. As well, the Auditor General is the auditor of a number of public bodies of varying sizes and activities. The latter appointments can be made in several ways: by statute, by the Lieutenant Governor in Council, by the Minister of Finance, or by the board of the entity concerned.

Audit Objectives

We usually set two main objectives when we carry out a financial statement audit.

The first is the opinion that the Auditor General provides on the financial statements. The value of this opinion lies in it being based on an independent assessment, and therefore it adds credibility to the information to which it is attached. This credibility is important to, among others, lenders to the organization, those who are affected by the organization's activities, and those who ultimately bear the cost of financing those activities, most notably the taxpayer. As a result of this credibility, interested parties may make informed decisions by reference to the information which the opinion covers.

In expressing an audit opinion, the Auditor General states whether he or she believes that the financial statements are fairly presented in accordance with an appropriate basis of accounting. In most cases, the Auditor General can provide an

affirmative opinion. Occasionally, though, our audit results indicate that fair presentation has not been made. In cases where the effect of the misstatement does not impair the overall presentation of the information, the Auditor General will include a reservation in the audit report about the specific issue of concern. However, where the misstatement undermines the overall fairness of presentation, he will state that the financial statements are not fairly presented as a whole.

The second main objective of the financial statement audit is the report to management of observations and recommendations arising from the examination. To plan the audit, we need to gather information about the nature of the organization's operations and the design of its system of internal control. This knowledge, together with the results of our testing procedures, enables us to identify opportunities for improving the methods and processes used by management to safeguard resources and to provide useful financial reporting. When auditing the government's accounts, we report such matters to the Deputy Minister of the ministry concerned. When auditing a public body, we discuss the report with the audit committees of the organization, or the board if no audit committee exists. In this way, we can describe our concerns to those who are ultimately responsible for administering the organization's affairs. They are then able to direct management to take appropriate action.

In some situations, we may identify an issue of such importance that we believe the Legislative Assembly should be made aware of it. An account of the matter will be included in a report of the Auditor General to the Legislature, where it can then be examined by the Public Accounts Committee of the Legislative Assembly.

The Audit Process for Financial Statement Audits

The process we use to examine and report on financial statements is broadly the same for both the government and the other entities that we audit. First, we establish parameters within which we feel the financial statements can be said to be fairly presented (*materiality*). In doing so, we consider both monetary misstatements and presentation methods. And, since we can rarely examine every balance and transaction, we then decide how sure we want to be that we will find large errors, should they exist (*overall assurance*). These two elements, materiality and overall assurance, help us decide how much auditing we should do.

Our process is designed to conform with the professional standards established by the Canadian Institute of Chartered Accountants for audit engagements. These standards are commonly referred to as "generally accepted auditing standards," or GAAS. Our adherence to GAAS is periodically confirmed by the Practice Review section of the Institute of Chartered Accountants of British Columbia.

PROCESSES FOR REVIEWING INTERNAL CONTROLS

Audit Objectives

Sound financial management requires effective systems of internal control. The Legislative Assembly, as well as boards of directors, governors, and senior management in the public sector, need to be reasonably sure that the financial reporting that they and other stakeholders use to make critical decisions is sufficiently accurate for this purpose. They also want to be reasonably sure that the organization's resources are properly accounted for. A good system of internal control will not only include activities that help achieve these goals, it will also provide ongoing reporting of the extent to which such goals are being achieved. This allows boards and management to identify and act on problems as they arise, rather than being caught by surprise after significant damage has already occurred.

Ineffective control systems weaken an organization's ability to achieve its goals. Lack of knowledge about, and control over, what is going on can lead to inefficient use of resources and imprudent actions. Good systems of internal control, on the other hand, strengthen management's ability to be in control, and reduce the risk of unwanted events occurring and diverting the organization from its objectives.

For these reasons, we carry out assessments of internal control processes in government systems. Billions of dollars in resources flow through the government every

year. The government's internal control processes need to be well designed so that its resources are protected and properly accounted for.

Our goal in performing this work is to assist the government in improving the quality of its financial management and stewardship of resources. The results of our control reviews are reported to the Deputy Minister of the ministry concerned. Because the systems we select are invariably significant, we include a summary of our findings and recommendations in our Annual Report. We also include in the report a summary of the ministry's response to our recommendations. This provides us with a basis of monitoring and reporting on remedial actions in future reports.

Selection of Internal Control Reviews

In deciding what internal control systems to review, we try to select projects that we feel will produce the most benefits to the government and the public within a reasonable cost. We therefore look for programs and systems in which, if effective internal control processes were not in place, significant errors could happen.

The systems we select to review are chosen primarily based on our perception of the risk of errors occurring. For example, some expenditure programs may have few transactions, but are complex in nature, with a lot of subjective judgment needed to determine whether or not the payments should be made. If the complexity is not recognized in the

disbursement process, 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 there may be many of them, with a corresponding need for a processing system that can handle the volume. A system with inadequate processing capacity will increase rather than reduce the risk of errors happening.

This illustrates that the environment in which each program and system operates creates a unique combination of risks. Accordingly, the ideal balance of cost-effective control processes will not be the same in each case. We attempt to recognize these issues in selecting our projects and reporting the results to management.

FINANCIAL WORK REPORTED DURING THE YEAR

In December 1994, the Auditor General released his *Report on the 1993/94 Public Accounts (1994/95: Report 3)*. That report provided a detailed account of the work carried out by the Financial Audit Division during the year to that date. The following information has been extracted from it.

Financial Statement Audits

As well as giving his opinion on the government's Summary Financial Statements, and on those for the Consolidated Revenue Fund, the Auditor General provides audit opinions on the financial statements of the 49 entities listed in Appendix B. Most of these organizations are either included in

the government's summary financial statements or are trust funds administered by the government. In addition to the organizations listed, the Auditor General reports on a small number of other entities which are also accounted for in the financial statements of the organizations listed.

The Auditor General was able to report affirmatively on the government's 1993/94 financial statements, that is, without including a reservation in his report. Of the other organizations for which he reports on the financial statements, all but three received a similar audit opinion. For one of the exceptions, the organization had not used certain accounting policies that, in our opinion, should have been used. For the other two, the nature of the organization's revenue was not susceptible to verification through normal audit procedures. In each case, the Auditor General included a reservation in the audit reports on the financial statements of the entities concerned.

A number of issues we identified in our audit of the government's 1993/94 financial statements were also reported in our 1994/95: Report 3. For example, the Auditor General expressed his continuing concern that over \$3 billion of unfunded pension liabilities is not recorded in the Public Accounts nor in the financial statements of any employer group. This amount is the aggregate unfunded liabilities for the Teachers' Pension Plan, the College Pension Plan, and the Municipal Pension Plan.

The Auditor General also continued to urge the government to refer to the summary level financial statements, rather than only to those financial statements of the Consolidated Revenue Fund, when it publicly comments on the results of its operations. Because significant government programs such as highway construction are carried out through entities that are not part of the Consolidated Revenue Fund, the Fund's financial statements present an incomplete picture of the activities for which the government is accountable. This reduces the usefulness of the information to readers of the financial statements who are seeking to evaluate the government's overall financial performance.

Internal Control Reviews

During the past year, we have:

- performed an update of the development of the government's new corporate accounting system, including the adequacy of internal controls;
- completed two projects relating to the public funding of non-government organizations; and
- carried out a review of the claim payment systems of the Medical Services Plan of British Columbia.

Corporate Accounting System (CAS)

The implementation of the CAS is a major initiative that will affect all financial transactions and their reporting throughout government. For this reason, we are keeping in close touch with the

development of this project, which is slated for completion by September 1997. Our aim is to provide the government with recommendations and suggestions that we hope will contribute to a successful and cost-effective outcome for the project.

The focus of our recent work has been to follow up on issues that we raised in our *1994 Annual Report*, and to evaluate how the government has responded to the recommendations and suggestions included in the report. These issues cover aspects of the implementation process, such as the desirability of cost-benefit analysis at appropriate project milestones, and other matters such as information security, the need for adequate documentation, and the importance of communication.

Overall, we are pleased with the progress the government has made in addressing the concerns we included in our *1994 Annual Report*, and we feel that the project is well positioned to proceed.

Public Funding of Non-Government Organizations

Non-government organizations that we looked at in 1994 included "not-for-profit" organizations that provide services in such fields as social care, community health and recreation, and protection of persons and property.

People are sometimes surprised to learn that amounts paid to such organizations by the government each year can be as high as \$1.5 billion (Exhibit 1). Among other things, this money

supports the construction of community facilities such as arenas and swimming pools, as well as the operating costs of services such as providing residential care to the elderly.

We reported on two projects in this area during the last year. The first looked at funding to non-government organizations through the sale of breakopen lottery tickets and the related one-time grant program. We were primarily interested in finding out whether the government's procedures

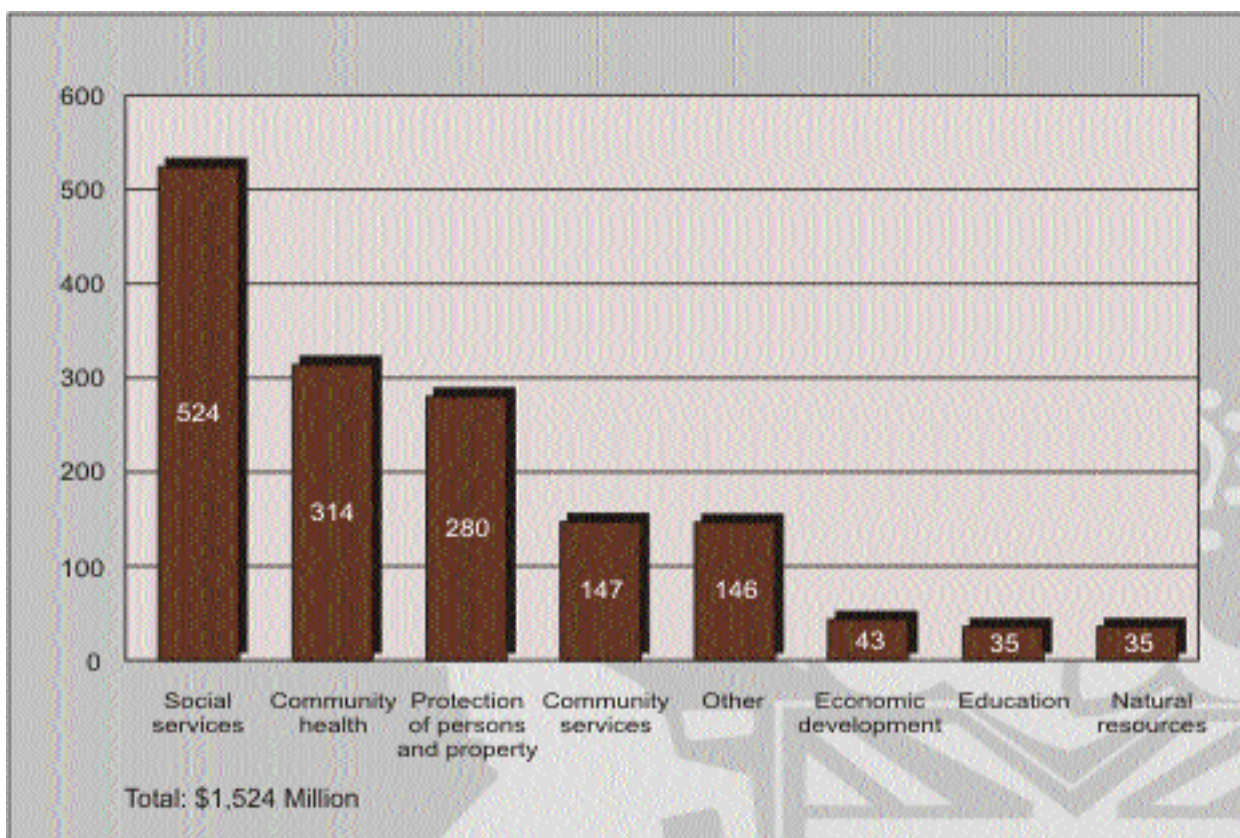
ensured that only eligible organizations benefited from the program and that the proceeds were used for approved purposes. Our findings led us to conclude that procedures were generally ineffective in achieving these objectives. Moreover, we realized that the nature of our concerns was not limited to just this program, but could apply to most government funding of non-governmental organizations.

Accordingly, we carried out a second, more expansive, review of

Exhibit 1

Contributions and Grants to Non-government Organizations

Amounts given for various purposes in the 1992/93 fiscal year (\$ Millions)



Source: The Public Accounts 1992/93

control procedures over contributions and grants paid to non-government organizations by a number of ministries. Again, the focus was on whether or not the funded organizations were eligible recipients according to the relevant program criteria, and on whether or not the organizations used the money for the purposes the ministry approved. The review was done on payments made during 1992/93, to enable us to assess the funding process from initial acceptance of the requests to the final reporting by recipients. Overall, we concluded that ministries need to have better ways to assess, first, the applicants' need for funding and, second, the appropriateness of recipients' spending of the money provided.

Claim Payment Systems at the Medical Services Plan

In the fiscal year 1993/94, the Medical Services Plan spent nearly \$1.6 billion—about one-quarter of the total expenditure on health care in that year (Exhibit 2). The Plan makes payments to medical and other health care practitioners for required services provided to persons covered by the Plan. The larger part of the payments (\$1.3 billion) are made on a fee-for-service basis, where physicians and laboratories receive a standard fee for each Plan service they provide. Other major expenditures include alternative payments, which are for services provided through an institution such as a clinic, and supplementary health care payments, which are for services provided by chiropractors, optometrists, and other similar health care providers.

We felt that the nature of the Plan created a higher than normal risk of incorrect payments. Not only do complex rules exist for determining the circumstances under which payments may be made, but the Plan's environment and activities create a susceptibility to abuse which requires continuous monitoring of risk. Needed, therefore, are effective systems to control and monitor the Plan's activities.

Our review looked at the controls designed to provide reasonable assurance that payments are made only on behalf of people who are covered by the Plan, as well as processes intended to provide reasonable assurance that claims on the Plan are for valid services, are correctly calculated, and are properly recorded.

Overall, we found that the Plan's management has developed a number of worthwhile control activities to minimize the risk of incorrect payments. However, we felt that more could be done to provide some assurance, at the time payments are made, that the services have in fact been provided, rather than relying principally on post-payment verification procedures.

Commentary and Analysis

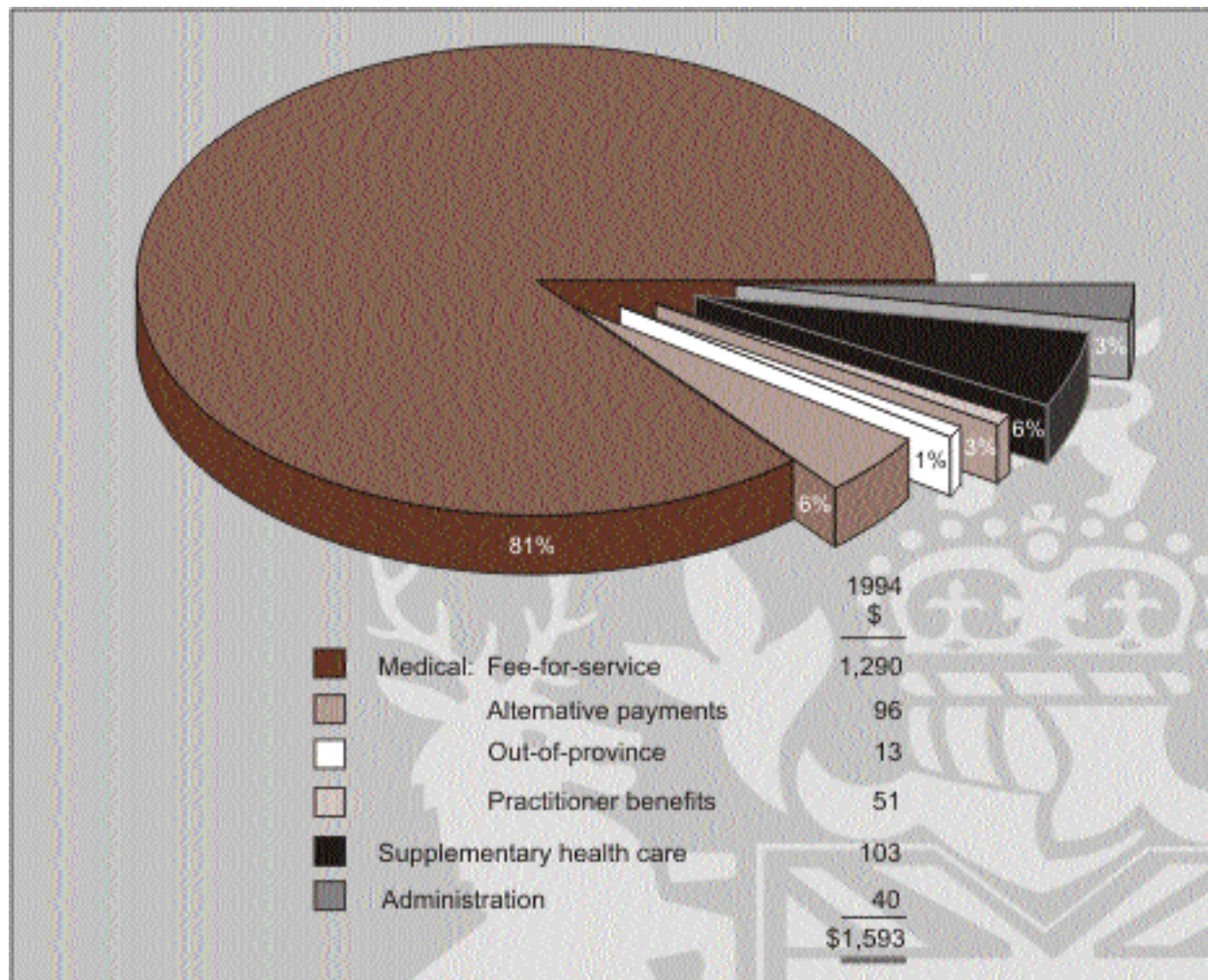
Commentary on the Public Accounts

Our reports on the Public Accounts provide us with an opportunity to comment on a wide range of issues relating to the government's financial reporting. As well as the reviews of financial control systems referred to above, we provide commentary on how

Exhibit 2

Medical Services Plan Expenditures for the Year Ended March 31, 1994

Expenditures by main categories (\$ Millions)



Source: Medical Services Plan Accounting Records

the government's financial statements are compiled and on what changes have taken place in the government's reporting entity. As well, we summarize the financial highlights relating to the government's revenues, expenditures, and financial position, and set out our thoughts

on specific topics of current interest, along with some suggestions for the government to consider.

In our 1994/95: Report 3, we commented on the following topics of particular interest.

Provincial Debt: Comments on Its Reporting

In this section, which continued from the *1994 Annual Report*, we provided further information about the composition of the total provincial debt, its rate of increase, and other important information about it. We also set out a list (Exhibit 3) of 10 measures and indicators of debt, among them, total provincial debt, changes in debt, and the tax “bite.” We recommended to the government that these 10 indicators, as a minimum, be included in the Public Accounts.

We are pleased to see that in its *Budget ‘95* reports, the government responded to our

recommendation by showing a number of indicators and measures of the provincial debt. We further note that the government intends to produce an annual *Debt Management Progress Report* to improve public understanding of the provincial debt and how it is managed.

Improved Accountability Through Better Information

As well as following up on the status of items we described in previous reports, we raised in our 1994/95: Report 3 the issue of “implicit expenditures” (sometimes called “tax expenditures”). These expenditures, used to achieve program goals, do not represent the

Exhibit 3

Measures and Indicators Recommended for Disclosure in the Public Accounts

Are they disclosed in government publications?

Recommended Measures and Indicators	Public Accounts	Public Accounts Digest	Economic and Statistical Review	1994/95 Budget
1. Debt to revenue	No	No	No	No
2. Total provincial debt	No	No	Yes	Yes
3. Debt per capita	No	No	Yes	No
4. How debt changed	Partially	No	Partially	Partially
5. Why debt changed, including the operating deficit	No	No	No	No
6. Sources of borrowing	No	No	Yes	Yes
7. Interest bite	No	Partially	No	No
8. Debt to GDP	No	Yes	Yes	Yes
9. Total cost of debt servicing	No	No	No	No
10. Rate of interest	Partially	No	No	No

Source: The Public Accounts, 1992/93 Public Accounts Digest, Budget ‘94, 1993 BC Economic and Statistical Review

payment of money, but rather the granting of tax relief or discounts from goods or services supplied.

At present, only limited information about these expenditures is included in the Estimates and in the Public Accounts, yet they are a major element of the cost of government programs. We estimate that the total annual tax expenditures and source withholdings for the Province of British Columbia exceed \$3 billion annually. We therefore recommended to the government that it provide more information about implicit expenditures in the Public Accounts.

FUTURE FINANCIAL AUDIT ACTIVITIES

Financial Statement Audits

We do not see any major changes in our portfolio of financial statement audits in the year to come. Accordingly, we plan to audit approximately the same number of organizations as we are doing for the current year.

Although the size and complexity of some of these audits might change in future years as a result of changes in accounting standards, we do not expect these developments to happen in the short term.

Internal Control Reviews

Our ability to carry out these reviews depends on the availability of resources. There are, however, two reviews in progress which will be reported in the coming year.

The first of these is a review of controls associated with expenditures being made through the Community Projects Program as part of "BC 21." This program receives a distribution of funds from the BC 21 Special Account, which was created under the *Build BC Act*. Expenditures from the account may be made for such purposes as community level capital projects, employment and job training initiatives, resource enhancement initiatives, and infrastructure initiatives.

The second is a review of certain internal controls over the payment of income assistance benefits at the Ministry of Social Services. In particular, the review will look at ministry processes for reducing the risk of fraud, abuse, and error, and will include an assessment of the computer controls in the income assistance payment system.



Value-for-Money Audit Program

PURPOSE OF VALUE-FOR-MONEY AUDITING

When our Office conducts value-for-money audits, we consider whether government managers are:

- making the best use of public funds, and
- adequately accounting for what they have done.

To do this, 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.

NATURE OF VALUE-FOR-MONEY AUDITS

If the entity being audited has prepared representations of its efforts to achieve value-for-money, we use the “attest” audit approach—we test the representations by collecting sufficient audit evidence to assess whether those representations are fairly presented. If the entity does not have management representations for us to audit, as has been the case with most government entities until very recently, we use what is referred to as the “direct reporting” audit approach. This means that we work with staff in the entity to gather the

necessary information and then draw our own conclusions.

We believe that management representations, along with attestation reporting, are the preferred way of meeting accountability responsibilities. To actively encourage the use of this model in the British Columbia public sector, a small number of our staff are meeting regularly with senior government managers to explain the methodology and discuss problems with those beginning to use it.

Our value-for-money audits are not designed to question government policies, nor do they assess program effectiveness. The *Auditor General Act* directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. When undertaking value-for-money audits, auditors can look at information about results to determine whether value for money is actually achieved. If this is lacking, then auditors can examine management’s processes to assess whether those processes are capable of ensuring that value is received for money spent.

Neither the attestation reporting approach nor the direct reporting approach alone can answer all the legitimate 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 value-for-money audit work frequently concentrates on management's processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we explain the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration. When we have made our assessments and recommendations for improvement, we present these in reports to the Legislature.

VALUE-FOR-MONEY AUDIT PROCESS

Value-for-money audits consist of five stages—pre-audit planning, planning, conduct, reporting and follow-up. Exhibit 4 describes the audit stages for our value-for-money audits.

Audit Selection

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

We believe that, in the absence of comprehensive management representations, value-for-money 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. Unfortunately, however, because of limited resources we have not been able to achieve this schedule.

Audit Standards

We carry out our audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants (CICA).

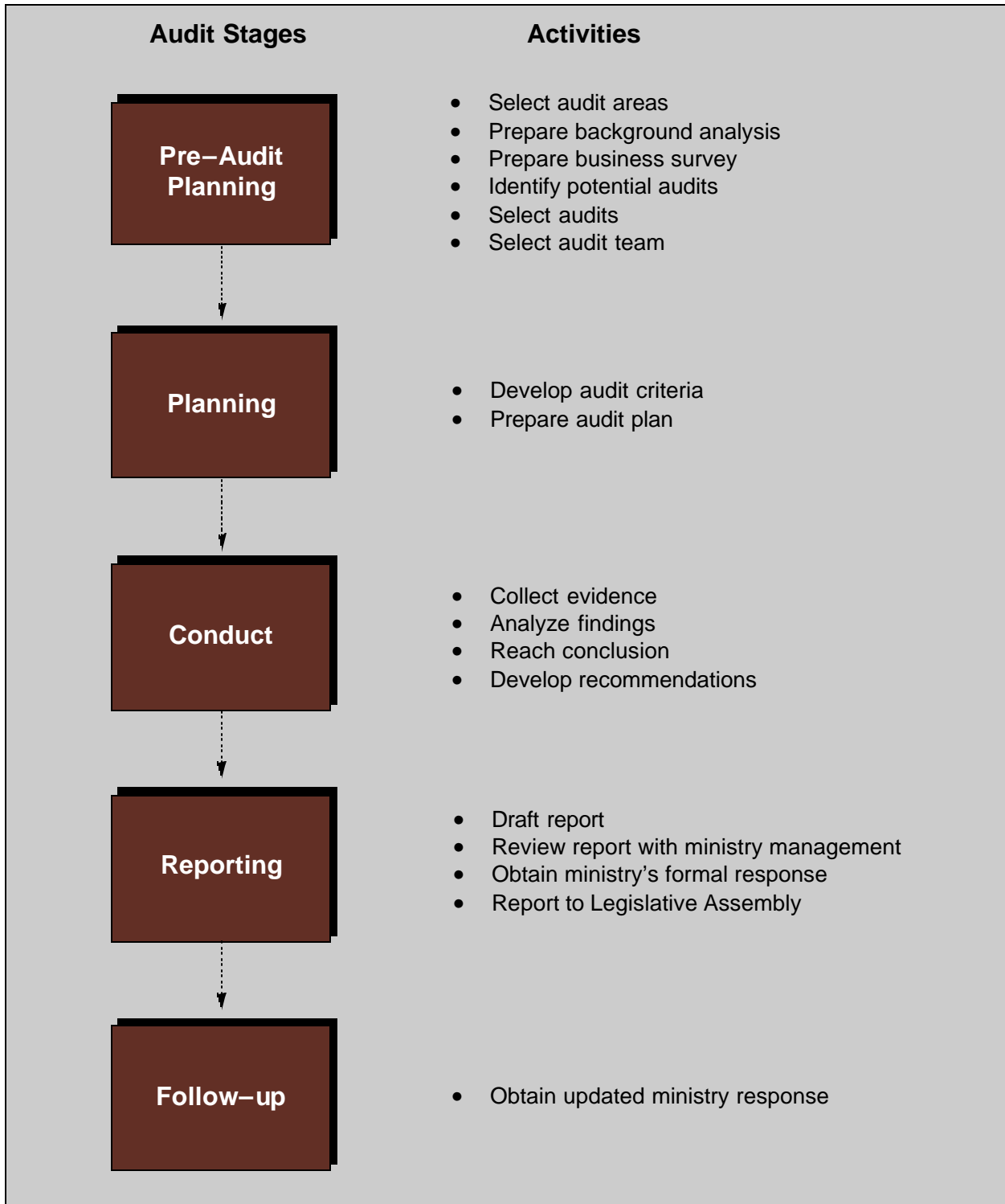
One of these standards requires that the “person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit.” To meet this standard, we employ professionals with training and experience in a variety of fields, engaging them full-time in the conduct of value-for-money audits. In addition, we often supplement the knowledge and competence of our own staff by engaging one or more consultants, with expertise in the subject of a particular audit, to be part of the audit team.

Because value-for-money audits (like all audits) involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit

Exhibit 4

Value-for-Money Audit Stages

An outline of the activities performed at each stage



criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor's report. As well, they address the reporting of audit results.

Audit Reporting

We report our audit findings in two parts: an overall conclusion and a more detailed and explanatory report. The overall conclusion constitutes the auditor's professional assessment on how well the auditee meets the expectations of the audit. 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 value-for-money audits. 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 exactly what it plans to do. Given the nature of value-for-money audits, we usually only follow up on matters raised in them when the next audit of the program area is undertaken. Without further information, however, legislators and the public would not be aware of the nature, extent, and results of

management's remedial actions. Therefore, when it is useful to do so, we also publish updates of management's responses to the value-for-money audits we reported in the preceding year.

VALUE-FOR-MONEY WORK REPORTED DURING THE YEAR

This year, we have continued to participate in several on-going initiatives to improve government accountability and effectiveness measurement by coordinating meetings between our staff and those of government entities that have shown an interest in these areas. While this work does not usually lead to the issuance of public reports, it contributes to the value-for-money that the public receives from government.

Three value-for-money audits were completed in 1994/95, and the following reports issued:

- *Purchasing in School Districts* (Report 1, issued August 1994);
- *Provincial Agricultural Land Commission* (Report 2, issued August 1994); and
- *Management of Government Debt* (Report 4, issued April 1995).

The highlights of each audit are summarized here. The reader may wish to refer to the original publications for more details.

Purchasing in School Districts

This audit of purchasing by school districts found that the purchasing of goods (such as textbooks and other learning resources) was well managed in four of the six districts examined,

but weak in the other two in specific areas.

School districts purchase over \$200 million dollars of goods every year. The audit looked at the economy and efficiency of purchasing practices in six districts—Courtenay, Kamloops, Langley, Peace River North, Surrey, and Windermere—which together contain almost 20% of the Province's students.

While the work focused on only these six districts, we believe that many of the audit's findings will be useful to the other 69 districts in the Province. An overall theme of the report is that districts are too isolated from each other, and that the biggest potential for improving efficiency in purchasing lies in more cooperation among school districts.

An interesting feature of this audit is that it was the first time our Office carried out a value-for-money audit outside of government ministries. More such audits are planned for the future because, increasingly, services paid for by the provincial government are being delivered indirectly, through public bodies such as school districts, hospitals, and post-secondary institutions. As part of our Office's role, we want to be able to report to the Legislative Assembly whether the public is getting value for the money spent on these services.

Provincial Agricultural Land Commission

This audit looked at the operations of the Provincial Agricultural Land Commission in carrying out its mandate—to preserve agricultural land in British Columbia—and at the information it provides to the Legislative Assembly on its activities.

Although the commission is not large in terms of its financial and staff resources, it is important because for approximately 20 years it has been making decisions affecting land use for 5% of the Province's land—the land in the Agricultural Land Reserve. Consequently, we decided it would be worthwhile to review the operations of this small but vital agency.

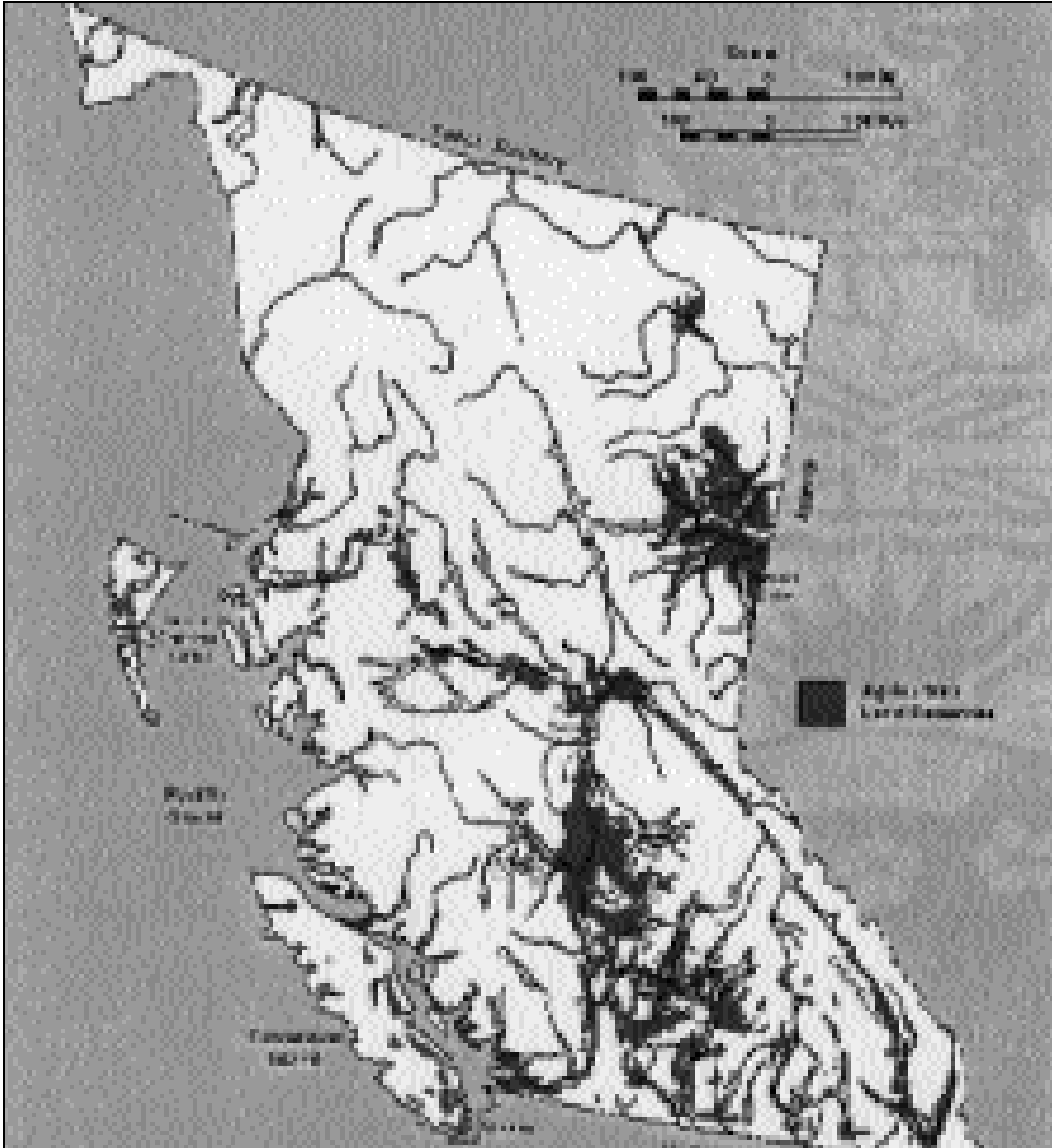
The audit found that the commission has not clearly identified what it expects to accomplish or the measures it should use to assess whether it has achieved its objectives. We also noted that management processes are appropriate, but not as efficient as they could be. Greater use of computer technology for processing applications and maintaining information about the Agricultural Land Reserve could result in a more efficient operation.

As well, we encouraged the commission to improve the information it provides to the Legislative Assembly. We were pleased to note, in the commission's response to the audit, that it agreed with our recommendation and indicated that it will seek to provide better information in the future.

Exhibit 5

British Columbia Agricultural Land Reserves

Locations in the Province



Source: Provincial Agricultural Land Commission

Management of Government Debt

Over the past few years there has been considerable public interest in government debt, particularly the size of it. In our 1994/95: Report 3, we suggested that the government should report more information in the Public Accounts about the size of the debt, along with various indicators (Exhibit 3) to show the public how the costs of servicing debt are affecting the ability to finance government programs. In 1994/95: Report 4, we reminded the reader that it is not the role of this Office to question political decisions that lead to increases or decreases in the size of government debt. Instead, we discussed the management of debt from the point of views that government managers should be:

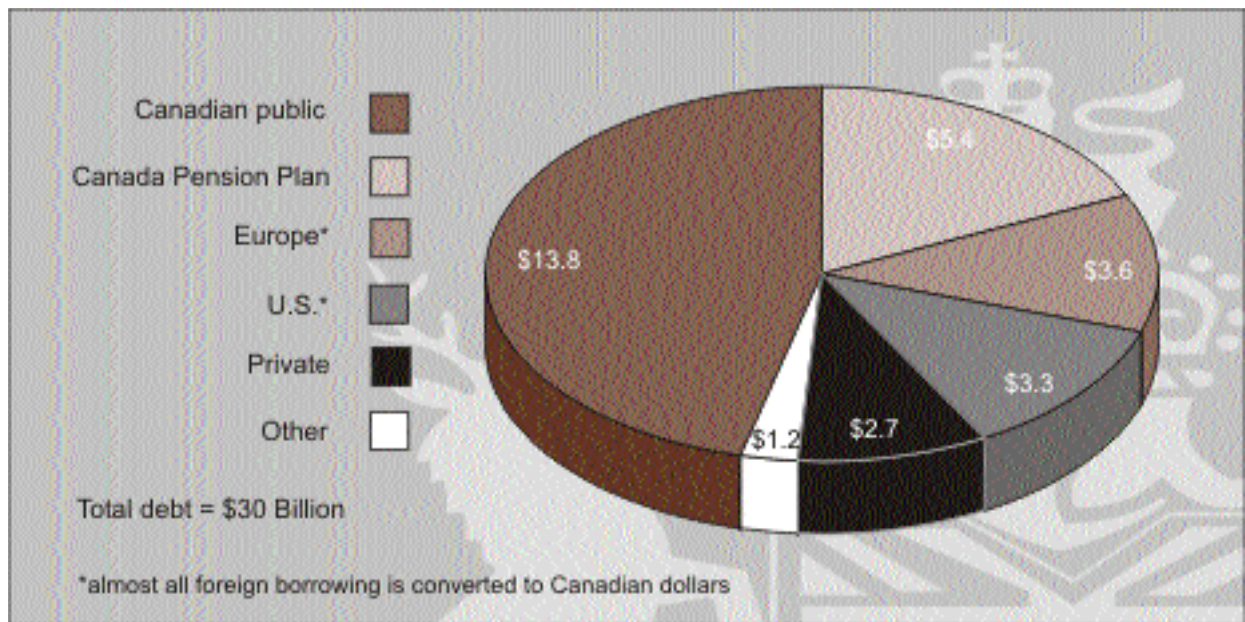
- managing cash balances in a way that minimizes amounts that have to be borrowed; and
- borrowing in a way that minimizes current debt servicing costs without risking higher costs in the future.

This audit found that the Ministry of Finance and Corporate Relations is properly managing the costs of government debt. Cash balances are managed so that borrowing to meet the day-to-day cash requirements of central government is minimized, and the costs of servicing government debt are reduced by centralizing borrowing for all of government—ministries as well as Crown agencies—to take advantage of the Province’s high credit rating. New sources of borrowing (Exhibit 6) have also been developed to

Exhibit 6

Outstanding Debt by Investor Source at March 31, 1994

A variety of investors loan money to British Columbia (\$ Billions)



Source: Based on information from the Ministry of Finance and Corporate Relations

minimize debt servicing costs as much as possible, although they generally increase as debt increases. (Exhibit 7).

The report notes that debt managers in British Columbia have a high degree of autonomy and flexibility in managing the total debt portfolio of \$30 billion, because legislative approval is not required for individual borrowings, as it is in most other provinces. With the increasing use of financing programs where timely reactions to market conditions are vital, we believe this policy makes good business sense. However, it also increases the need for compensating controls. We found the controls in place to be adequate, but point out that further assurance

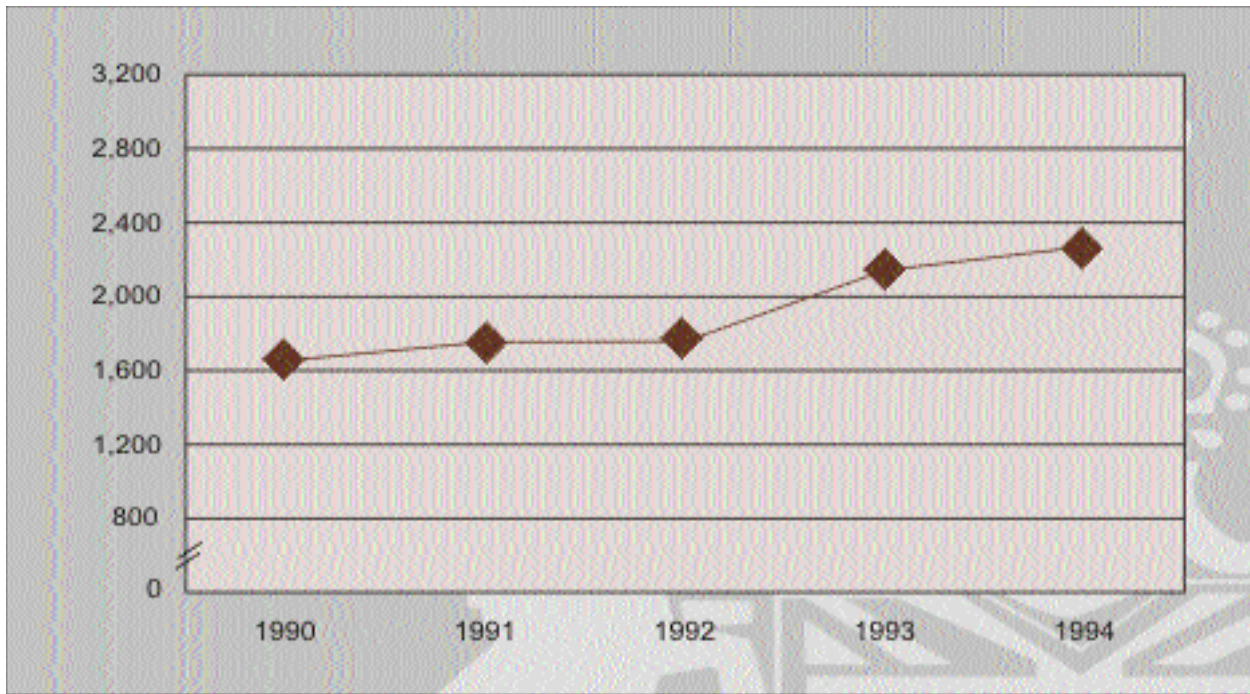
could be gained by requiring an external review of management decisions.

While we found that cash balances and borrowing transactions are being properly managed, we believe more could be done to provide the public and the Legislature with information about the management of government debt. The recommendations in this report, along with those in our 1994/95: Report 3 under “Provincial Debt: Comments on its Reporting,” have led the government to commit to producing an annual *Debt Management Progress Report* that is to contain the information we have requested.

Exhibit 7

Debt Servicing Costs

Costs are increasing along with increases in debt (\$ Millions)



Source: The Public Accounts

FUTURE VALUE-FOR-MONEY AUDIT ACTIVITIES

In our budget for 1995/96, the Office has acquired five additional staff to assist in expanding our audit efforts, most of which will be devoted to increased value-for-money work. In the coming years, we will continue to contribute some of our resources to government efforts to develop better methods for providing accountability information and measuring effectiveness. To complement these on-going initiatives, we intend to meet with the boards of Crown corporations, and agencies in the health and education sectors, to discuss some of the guiding principles for good governance in these areas. As well, we plan to continue our regular cycle of audit activities, reviewing each ministry as it comes due for potential audits of a value-for-money nature.

At the end of the fiscal year, a number of audits were underway, some of them in the early stages and not yet publicly announced, while others (described below) were substantially completed.

British Columbia Ferry Corporation

During 1994, our Office started two value-for-money audits at the British Columbia Ferry Corporation. The work on these projects has been substantially completed and the reports on our findings will be released shortly.

The British Columbia Ferry Corporation was created in 1977 to establish, operate, administer, and

maintain ferry and shipping services. As at March 31, 1994, the corporation had a fleet consisting of 40 vessels on 24 routes, servicing 42 terminals. The corporation's mission is to provide safe, efficient, effective, and reliable ferry transportation services to its customers.

In our first project, we assessed the adequacy of the corporation's maintenance management program and the extent to which the corporation measures achievement of intended results, including obtaining value-for-money. Our audit included both fleet and terminal assets of the corporation.

Our second audit assessed whether the corporation meets the requirements for a safe coastal ferry system. We focused our audit on the safety of passengers, crews, vessels, and terminals, and the prevention of damage to property.

Ministry of Finance and Corporate Relations

An audit is underway to determine if ministry methods for maximizing social services tax revenues are cost-effective. As well, we are assessing the extent to which the ministry estimates the size of the gap between revenues collected and those which are owing.

The results of the audit will be reported in the fall of 1995.



Compliance-with-Authorities Audit Program

PURPOSE OF COMPLIANCE-WITH-AUTHORITIES AUDITING

In government, revenues are raised and expenditures are made in keeping with specific enabling laws and regulations. This is quite different from the private sector where revenues and expenditures are governed by market forces and the profit motive. Also, in government, most program activities are provided for in enabling laws and regulations. In the private sector, these activities are decided by the governing board and management, on behalf of the owners or shareholders. As the public is the ultimate stakeholder of government resources and activities, it has the right to an independent assessment as to whether government revenues, expenditures, assets, programs and activities are being properly administered in compliance with the publicly authorized laws and regulations put in place for that purpose. Such assessments are known as compliance-with-authorities audits.

While auditing for compliance with legislative and related authorities is the primary objective of compliance-with-authorities audits, it may also be part of financial statement audits or value-for-money audits where there are authorities that are relevant to the objectives of those audits.

NATURE OF COMPLIANCE-WITH-AUTHORITIES AUDITING

Legislative and related authorities include legislation, regulations, orders in council, ministerial orders, directives, by-laws, policies, guidelines, rules, and other such instruments. Through these authorities, powers are established and delegated.

Legislation may delegate broad powers to governments, ministers and officials who in turn may establish other related authorities, such as policies, to provide more detailed requirements that must be complied with by the organizations concerned. Such authorities are subordinate to enabling legislation and must not contradict or go beyond the directions and limitations set out in that legislation.

These authorities represent a basis for legislative control over the source and use of public resources, the administration of programs, and the manner in which organizations are held accountable for choices made in the exercise of their functions. The structure thus has a pervasive effect on the activities of governments and other publicly accountable organizations. Authorities also form the basis for communication between elected officials and the bureaucracy.

Key characteristics that we look for in our compliance-with-authorities audits:

- Legislative and related authorities are properly identified by the organization subject to them, and have been communicated to pertinent staff.
- The organization has established systems of internal control to ensure compliance with legislative and related authorities.
- Responsibility has been assigned for ensuring adherence to the controls.
- Controls are working to ensure compliance with the authorities.
- Accountability related to compliance with the authorities is reported periodically.

COMPLIANCE-WITH-AUTHORITIES AUDIT PROCESS

Under our Canadian system of government, laws approved by parliament and provincial legislative assemblies are of paramount importance to our society. Acts passed by the Legislative Assembly of British Columbia, including the *Supply Acts*, the *Financial Administration Act*, and the *Financial Information Act*, provide the government and government organizations with direction on managing resources entrusted to them by the public, and on being accountable to the Legislative Assembly for the execution of these responsibilities. These Acts provide the legal basis for funding, delivering, and administering the Province's social, economic, environmental and other programs.

Accordingly, it is important that the government ensure compliance with these statutes and related authorities. It is also important that this compliance be independently reviewed to ascertain whether public sector activities are carried out *intra vires* (within the scope of their

authority). This is where compliance-with-authorities auditing plays an important role.

Audit Selection

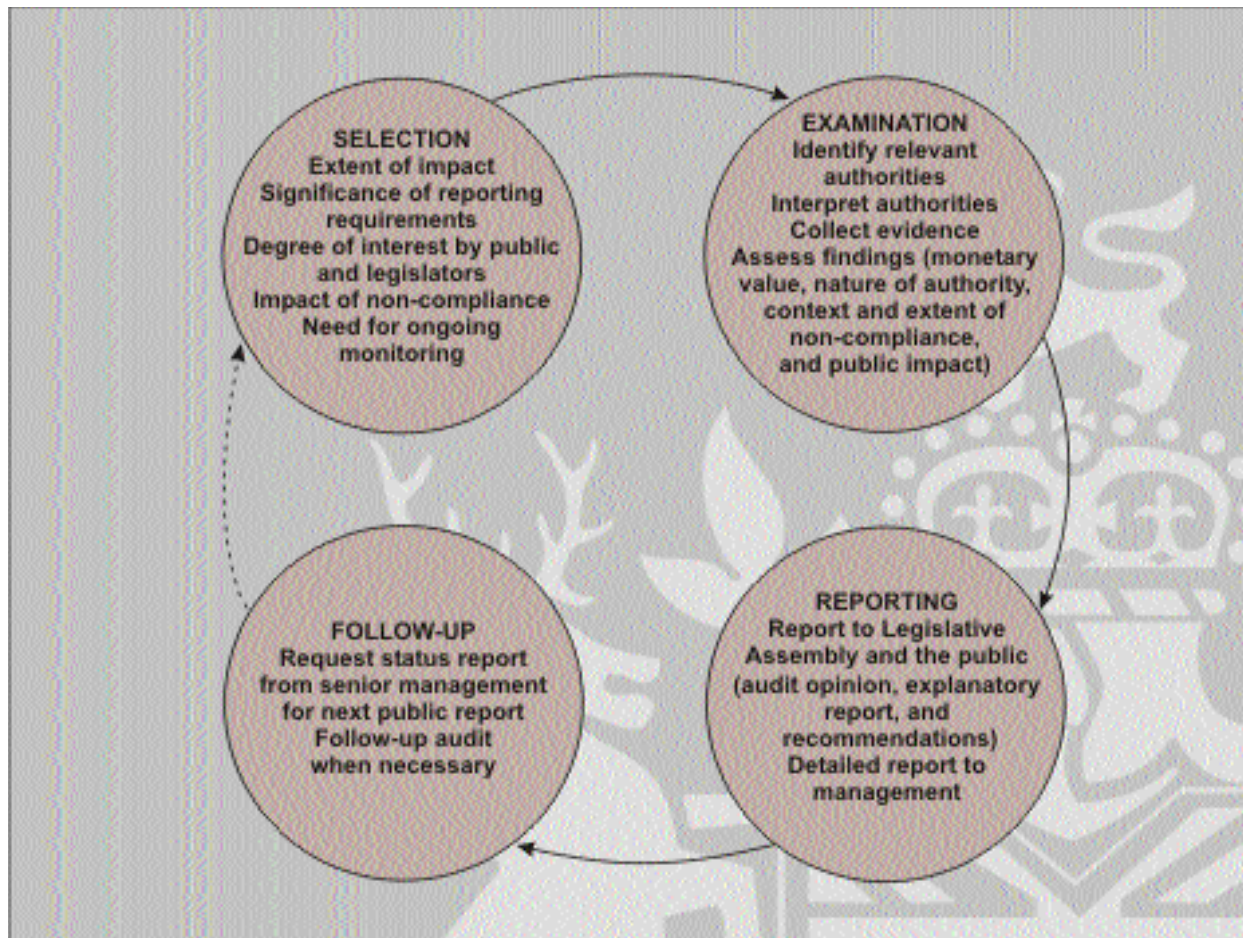
In general, we select specific sections in an Act, or in several Acts, having common objectives. In most instances, we do not audit all aspects of an Act in the course of one audit.

The primary legislative instrument that provides for administration of the financial affairs of the Province is the *Financial Administration Act*. Therefore, compliance with this Act is of regular and ongoing significance to our Office. Other legislation and related authorities are considered for audit purposes on a more cyclical basis, depending upon such factors as: the extent of impact on government, non-profit or private organizations and 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.

Exhibit 8

Compliance-with-Authorities Audit Stages

An outline of the activities performed at each stage



Audit Standards

Auditors are expected to comply with established professional standards, referred to as “generally accepted auditing standards.” Our compliance-with-authorities audits are conducted in accordance with the standards in section 5100 of the Canadian Institute of Chartered Accountants (CICA) Handbook; and with the “auditing for compliance with legislative and

related authorities” standards in the CICA’s Public Sector Accounting and Auditing section PS 5300.

Of particular note is that compliance-with-authorities audits differ from other audits in their degree of dependence on the identification of relevant authorities and the interpretation of the meaning of the specific authorities being audited. In order to identify the relevant authorities, the auditor

must obtain an in-depth understanding as to how the authorities are themselves approved and how relevant authorities can be identified. The audit process, therefore, includes determining that related authorities are within the limits prescribed by legislation, and that there are no obvious inconsistencies, contradictions, or omissions in the authorities.

In addition, whether or not an authority is being complied with will often depend on its clarity, and the consistency in which its meaning is interpreted. Because of the importance of such interpretations, we seek professional legal advice where necessary.

In an examination designed to report on compliance with authorities, we seek reasonable assurance that the authorities have been complied with. Absolute assurance in auditing is not attainable because of such factors as the need for judgment, the use of testing, and the inherent limitations caused by differing interpretations in the meaning of authorities.

Audit Reporting

Our public report on each audit 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 formal report includes the auditor's professional opinion on whether or not the authorities that are the subject of the audit have been complied with, in all significant respects.

Our main considerations in assessing the significance of non-compliance include monetary value, the nature of the authority or finding, and the context within which compliance is to occur. In addition to the formal audit report, we provide a more detailed report that includes an explanation of what is required by the legislative and related authorities, the scope of our audit work, our overall observations, our detailed audit findings, and any other related observations. When appropriate, we also make recommendations. These fall generally into three categories: to improve compliance with the legislative and related authorities; to improve operational effectiveness of the entity responsible for ensuring compliance; and, on occasion, to provide useful, new legislative or related authorities.

In some cases, there may be minor instances of non-compliance that are either not detected by the audit or not worthy of inclusion in the report. We exercise professional judgment when assessing the significance of any non-compliance, considering, for example, the needs of users of the report, the nature of the relevant authorities, and the extent of non-compliance. The significance of any non-compliance often cannot be measured in monetary terms alone.

We sometimes also issue a detailed management report of our findings to the ministry responsible for the legislation or the organizations affected by it. The relevant ministries or organizations are thus given an opportunity to respond to our findings, and we

take this into account in the preparation of our public report.

When our public report on compliance-with-authorities audits in the past year is published, it is reviewed by the Select Standing Committee on Public Accounts of the Legislative Assembly of British Columbia. We follow up annually, to obtain a status report from the ministries responsible on their progress in implementing any recommendations made by the committee in relation to our reports. These status reports are included in our next public report on compliance-with-authorities audits.

COMPLIANCE-WITH-AUTHORITIES WORK REPORTED DURING THE YEAR

Four compliance-with-authorities audits were reported in our Report 5 for 1994/95. They dealt with four distinct statutes of the Province, as follows:

- the *Elevating Devices Safety Act* and related regulation, which set out rules to ensure the safe operation of elevating devices;
- the *Travel Agents Act* and related regulation and policy, which regulate the operation of travel agents in British Columbia and the Travel Assurance Fund;
- the *Financial Administration Act* (sections 56 to 58), the Guarantees and Indemnities Regulation, and the related Treasury Board policies, which provide for the approval, control, and reporting of guarantees and indemnities; and
- the *Land Tax Deferment Act*, which enables eligible property owners to defer payment of their property tax.

We had reservations about the extent of compliance with the first three statutes and their related authorities. Consequently, in our Report 5 for 1994/95, we made a number of recommendations for improvements.

Elevating Devices Safety Act

This audit was conducted to determine whether certain significant sections of the *Elevating Devices Safety Act* and related regulation were complied with as of August 1994. Specifically, we audited for compliance with those sections requiring that:

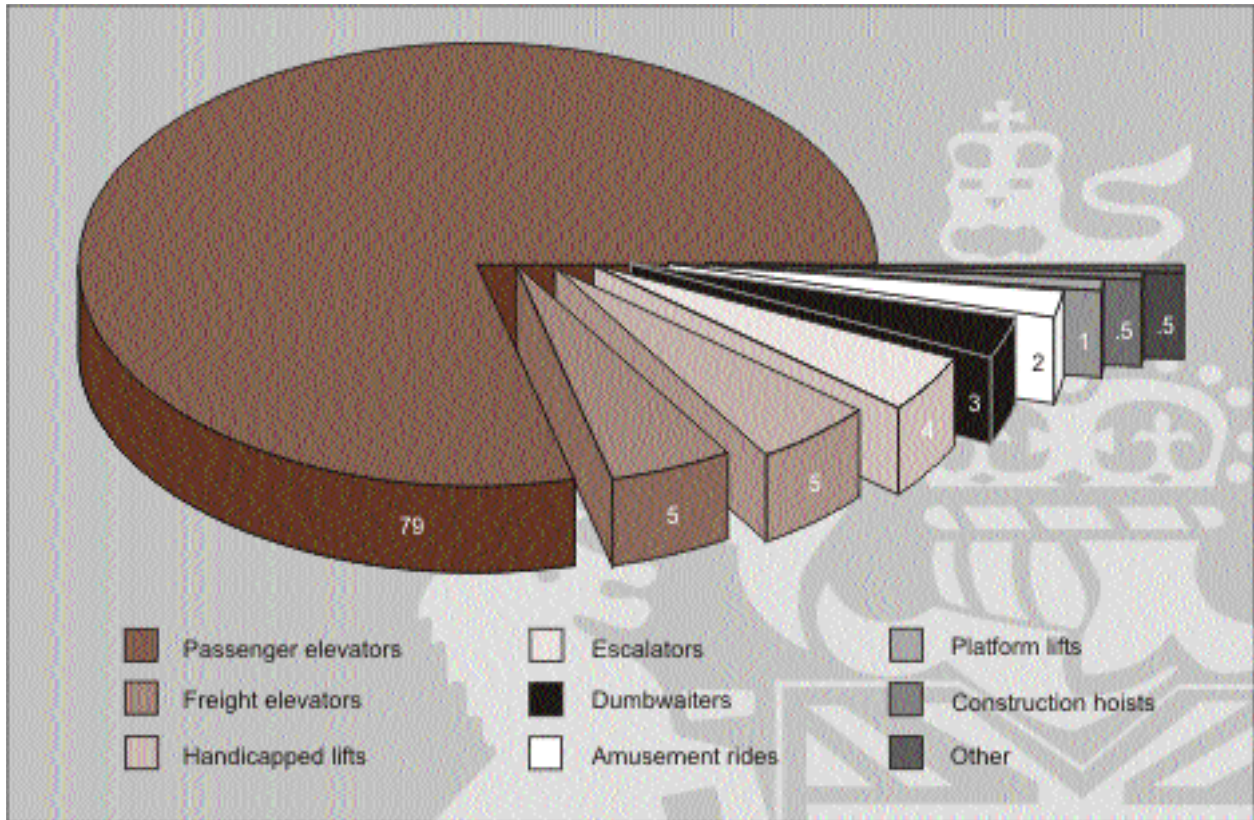
- the plans and specifications for devices be filed with the government;
- all elevating devices be inspected before being licensed for use;
- all elevating devices have annual certificates to operate;
- all elevating devices be inspected on a periodic basis;
- the tests of safety gear, as specified in the regulation, be done every three years;
- contractors be licensed; and
- accidents be reported within the specified time period.

We found that sections not being satisfactorily complied with were those requiring the follow up of government directions for corrective action arising from periodic inspections, and the

Exhibit 9

Types of Elevating Devices

A broad range of devices are covered by the Elevating Devices Act (comparison by % as of July 31, 1994)



Source: Based on records at the Boiler and Elevator Safety Branch

testing of safety gear every three years. The remaining sections of the Act and related regulation that we examined were, in all significant respects, being satisfactorily complied with.

Travel Agents Act

This audit was conducted to determine whether the government had complied with, and ensured travel agents had complied with, the main requirements of the *Travel Agents Act* and related regulation

and policy, as of August 1994. Among these:

- applicants for registration shall be assessed on specific financial and ethical considerations;
- the applicant should have a positive net worth position and a positive working capital position at the time of application, and maintain this position while in operation;

- travel agents shall prominently display their registration certificate;
- travel services in the Province shall only be offered by those businesses that are registered, unless exempted under the Act;
- the Branch shall maintain a register of all registered travel agents;
- travel agents shall maintain prescribed business records and file annual financial statements with the Branch certified as correct by the owners or directors; and
- the Travel Assurance Board shall file an annual report on the operation of the fund.

In this audit, we found that travel agents were being registered in accordance with the requirements of the Act, in all significant respects, but they were not complying with all the legislative and related requirements to maintain their registration in good standing. The government did not, in our opinion, adequately ensure that the ongoing financial standards and reporting requirements of the Act were being complied with by travel agents. In addition, we found that the Travel Assurance Fund was operating in accordance with the Act, but its required annual report was not being filed.

Financial Administration Act: Guarantees and Indemnities

In this audit, we looked at commercial guarantees and indemnities given by government ministries and government

corporations between April 1, 1991, and March 31, 1994. Our purpose was to assess whether these guarantees and indemnities had been approved, controlled, and reported in accordance with the requirements of the *Financial Administration Act*, the Guarantees and Indemnities Regulation, and the related Treasury Board policies. Specifically, we wanted to see whether:

- ministries and government corporations had established and documented procedures for the review, control, and approval of guarantees and indemnities;
- applications for guarantees contained certain required information;
- risk assessments were completed and contained all the required information;
- guarantees were reviewed by legal counsel before being submitted for approval;
- guarantees and indemnities were approved by appropriate authorities;
- the Ministry of Finance and Corporate Relations maintained a central record of all guarantees given by ministries and government corporations;
- ministries exercised any rights government has, in consultation with legal counsel, when claims were paid out;
- indemnities, where possible, contained dollar limits and an expiry date;
- the Risk Management Branch maintained a central record of

all indemnities that have received Treasury Board approval; and

- the Minister of Finance and Corporate Relations had tabled the required annual report in the legislature.

Our audit of the guarantees and indemnities sections of the *Financial Administration Act* is a continuation of our ongoing, cyclical, compliance-with-authorities auditing of this Act, which is the government's principal legislation governing financial administration, control, and reporting. We found that, during our period of review—between April 1991 and March 1994, the legislative requirements for the approval, control, and reporting of guarantees were being adequately complied with, in all significant respects. However, during the same period, the legislative requirements for the approval, control, and reporting of indemnities, and the more detailed Treasury Board policy requirements relating to the approval of guarantees, were not being adequately complied with.

Land Tax Deferment Act

In doing this audit, we looked for the extent of compliance with both the eligibility criteria and the various administrative aspects of the legislation. We found that the *Land Tax Deferment Act* was being complied with in all significant respects.

Impact of Compliance Work

During the past three years, the Office has completed, and reported publicly on, 13 compliance-with-

authorities audits. Numerous recommendations have been made to date that deal with potential improvements to both operational effectiveness of compliance systems and procedures, and to provide for amended or new authorities. All but three of the reports issued before May of this year have been discussed by the Select Standing Committee on Public Accounts, which has endorsed virtually all of the audits' accompanying recommendations.

FUTURE COMPLIANCE-WITH-AUTHORITIES AUDIT ACTIVITIES

The Office's compliance-with-authorities work is at the forefront of this form of public sector auditing in the country. Therefore, its present approach to conducting audits of this nature is likely to continue, for at least the next few years.

However, because this type of work was officially begun only three years ago, processes are still being established within the operating context of the Office. This involves documenting operating processes and procedures, preparing strategic plans, determining appropriate performance standards, applying quality assurance checks and balances, and establishing liaisons with other audit offices, the public sector community, and others with an interest in compliance-with-authorities auditing.

Two of the more important organizations with which the Office has been actively communicating are the Conference of Legislative Auditors (COLA) and the Canadian Institute of Chartered Accountants (CICA), particularly about the

auditing standards applicable to this form of auditing.

The head of compliance-with-authorities audits for the Office was the coordinator of a COLA study group in 1992/93 that assessed the state of compliance-with-authorities auditing being practiced in Canadian legislative audit offices. The study was conducted by senior representatives from five of the legislative audit offices across the country and an official from the CICA. A report on the subject was issued in June 1993.

Following that study, it was determined that a few specific issues needed to be addressed, and a further study was allocated to representatives from three of the legislative audit offices—Newfoundland, Ontario, and British Columbia—with our Office again playing a coordinating role. One of the key issues identified as needing further study was the state of the CICA's Public Sector Auditing Statement (PS 5300) on "auditing for compliance with legislative and related authorities." The guidance contained in this statement was issued in 1986 and has not been kept up-to-date with contemporary auditing developments. This study is currently being completed.

It is this type of initiative that the Office will undertake in the years ahead: a leadership role in better defining what compliance-with-authorities auditing involves, and in working with other public sector audit offices and the profession generally to establish and maintain standards that are best suited to this special field of audit.



Special Projects

Each year, the Office receives a number of telephone calls, letters, and faxes about issues that concern individuals or groups in the Province. The concerns range from perceived inefficiencies to allegations of misuse of public funds, both in the government and in organizations funded by the government.

We evaluate all such contacts to determine the best way to have each issue addressed. It may require a letter of response, or a referral to a ministry or other office, such as the Ombudsman. When we determine that an issue should be investigated by our Office, we do so by incorporating it into the plans for one of our financial, value-for-money, or compliance-with-authorities audits. In those cases where a matter needs to be urgently investigated and does not fit with other planned audits for the year, we have undertaken special projects.

Purchase of Property for the Vancouver Island Highway Project

This year, following considerable public interest and a request from the Minister of Transportation and Highways, a special project was undertaken that resulted in a report in November 1994, *Review of the Purchase of Property at 2574 Millstream Road, Langford, for the Vancouver Island Highway Project: Report Issued to the*

Minister of Transportation and Highways. In it, we concluded that the ministry had made all reasonable efforts to minimize the cost of acquiring this property.

NOW Communications Contracts

Late in the fiscal year, also in response to public interest, we conducted a special project that examined government contracts with NOW Communications Group Inc. Issued in May 1995, *A Review of Contracts Between NOW Communications Group Inc. and the Government of British Columbia* reported that NOW was not shown any favoritism, but that a number of the contracts were not properly administered or reported.



Information About the Office



Information About the Office

ROLE AND RESPONSIBILITIES OF THE AUDITOR GENERAL

The legislative mandate for the activities of the Office derives from the *Auditor General Act*, which came into force in 1976.

Details of the Auditor General's responsibilities, as set out in the Act, appear in Appendix A. A more concise description of the role of the Auditor General is found in the Office's Mission Statement, which reads:

Mission Statement

The mission of the Office of the Auditor General of British Columbia is to serve the Legislative Assembly and the people of British Columbia by adding credibility to and improving government accountability. We ensure that the Legislative Assembly and the people receive independent assessments of government accountability and administration, and we work with government to help improve the measurement of government performance. Through our work, we promote good management in government.



The Office of the Auditor General reports directly to the Legislative Assembly

Quality Assurance

We strive to meet the highest professional standards in our auditing practices. To ensure these standards are met, we have in place a formal quality assurance program based on peer reviews by professionals from inside and outside the office.

During the past year, the Office's Quality Assurance Committee continued to review whether we are using current audit methods in all aspects of our work, by examining whether representative aspects had been performed in accordance with the approved methodologies and related office policies.

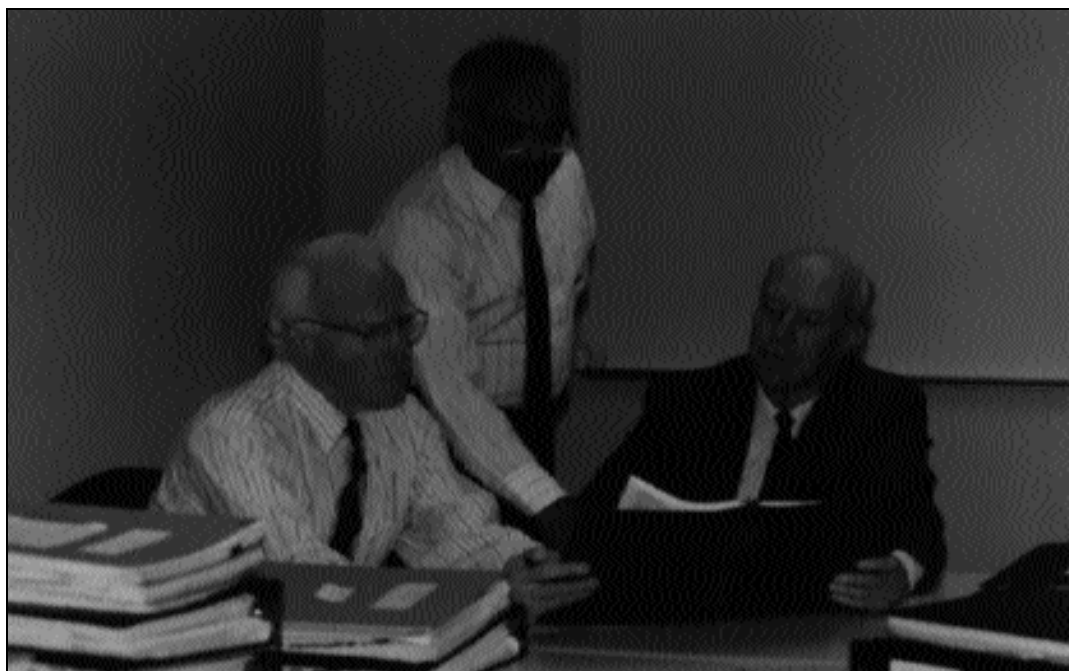
As well, our financial statement auditing program was recently reviewed by practice officers from the Institute of Chartered Accountants of British Columbia (ICABC). We were pleased to note that the results of

the review reflected favorably on the competence of our staff and our adherence to generally accepted auditing standards.

Reporting to the Public Accounts Committee

The *Auditor General Act* requires that the Auditor General report on the work of the Office and that this information be tabled in the Legislative Assembly and then referred to the Assembly's Select Standing Committee on Public Accounts.

The Public Accounts Committee is made up of elected members from the political parties represented in the Assembly, and is empowered to examine and inquire into matters referred to it by the Assembly. The committee's consideration of the work of the Auditor General plays a major role in ensuring that the public accountability obligations of



ICABC practice officers reviewing Office's audit work with one of our managers



Preparing for the Public Accounts Committee

ministries and agencies are properly discharged. The Auditor General and his senior staff assist the committee in providing explanations and analyses on the various matters under review.

On July 7, 1994, the committee tabled in the Legislative Assembly a report dealing with the 11 meetings it held between April 12 and July 7, 1994. Most of the committee's recommendations contained in the report pertained directly to issues raised by the work of this Office.

OPERATION OF THE OFFICE

Organizational Structure

The Office has four divisions (Exhibit 10). The three audit divisions, each under the direction of an Executive Principal, deal with the Office's audit responsibilities. The largest division is responsible for conducting audits of the

financial statements of the government and its internal control systems, and for conducting audits of a variety of public bodies. A second audit division carries out value-for-money audits, and a third audits compliance with legislative authorities and carries out special projects. The fourth division is responsible for administrative aspects of the Office including financial management, personnel, professional development, clerical assistance, public reporting, and computer services.

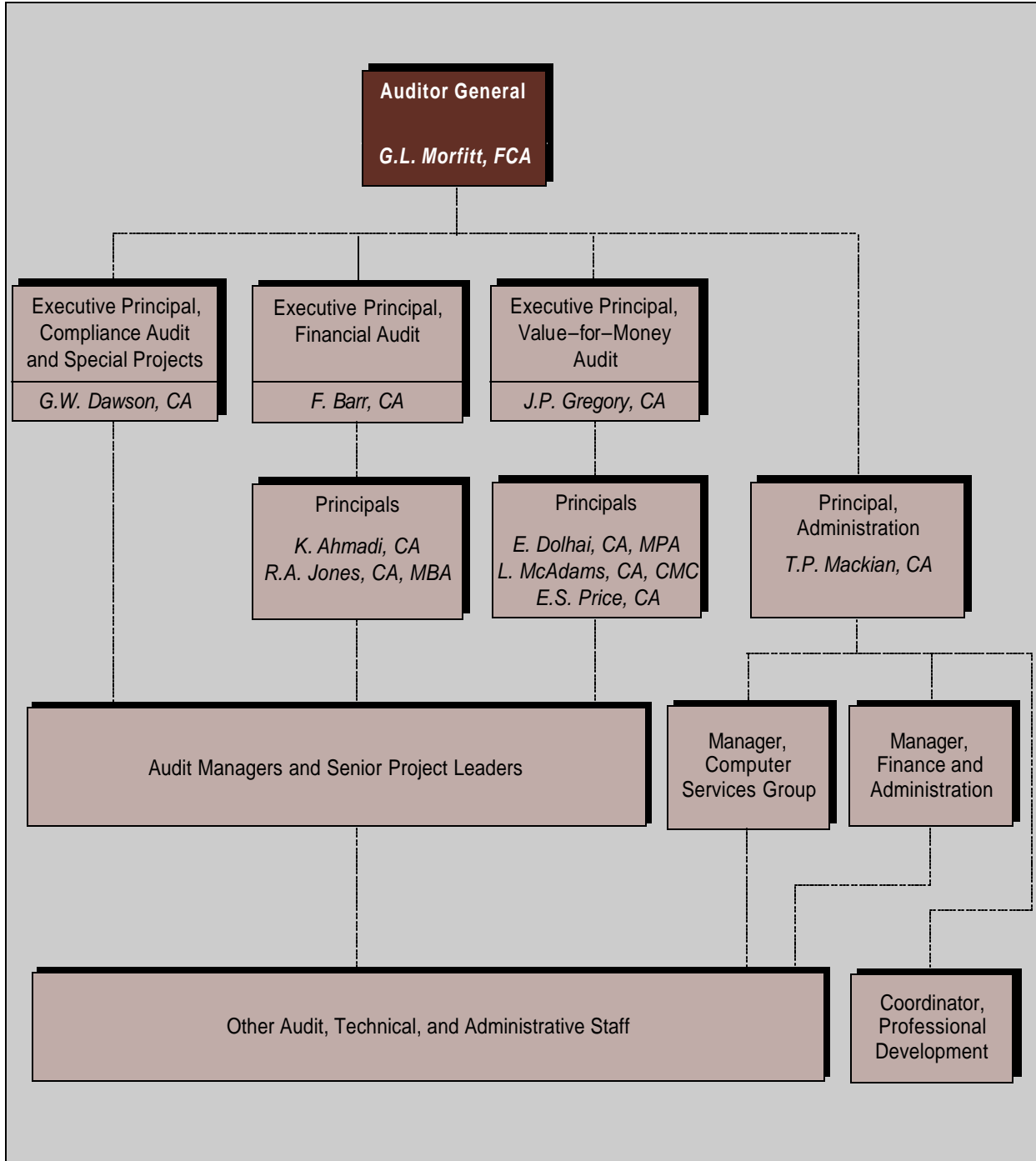
Staffing

In the last 12 years, the number of financial statement audits assigned to the Office has significantly increased, as has the audit size, both in dollar and transaction terms. As well, there is an increasing expectation that greater emphasis will be placed on

Exhibit 10

Organization of the Office of the Auditor General

An overview of the four divisions





Staff of the Office of the Auditor General

compliance and value-for-money auditing and other non-financial statement work. In recognition of this, five new staff positions were authorized for the Office this year. We expect this to assist us in meeting the increasing expectations of the Legislative Assembly and the public.

Seven 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 we always regret losing members of our staff, we feel a sense of accomplishment when our staff move into responsible positions in the public sector.

We continued our association with the University of Victoria Cooperative Education Program by employing a computer science/math co-op student and three business program students, each for four-month work terms.

Computer Services

This year, the former Information Technology Services Group (ITSG) was restructured to provide more direct reporting to the audit divisions. Those staff who are computer audit specialists were transferred to the Financial Audit Division, where they have continued to run computer-assisted audit techniques (CAATs) on B.C. Systems Corporation's mainframe or transfer the data over the network to the auditors' workstations. Now, audit staff, as well as the computer specialists, can run these CAATs on their workstations or on laptops in the field.

Remaining staff from the former ITSG now form the Computer Services Group (CSG), with the role of providing technical information technology support to the whole office.



Computer Services Group staff provide technical support

Desktop workstations in the office and portable workstations at client sites can be connected to a central network. This allows staff to access central applications, share files, send mail electronically, access computing services from off-site locations, and share common equipment such as printers.

During the year the network software and cabling was upgraded by standardizing workstations to one hardware platform. As well, staff were provided additional electronic accesses to government

data bases to support the planning and conduct of audits. The CSG continues to provide technical assistance to all staff in the use of information technology tools.

The enhancement or development of management information systems has been limited by a shortage of resources. Currently, the priorities for further information technology initiatives are being revisited by the Information Technology Steering Committee.

Finance

Net expenditure for the operation of the Office for the fiscal year ended March 31, 1995, was \$7,561,849. This figure is made up as follows:

Salaries and benefits	\$5,499,596
Operating costs	1,412,406
Asset acquisitions	608,597
Grants and contributions	56,700
	<u>\$7,577,299</u>
Recoveries	(15,450)
	<u><u>\$7,561,849</u></u>

In accordance with the *Auditor General Act*, the accounts of the Office are audited by an auditor appointed by Treasury Board, and are tabled in the Legislative Assembly by the Speaker.

Freedom of Information

Our office has continued to give input to a section of the *Freedom of Information and Protection of Privacy Act* Policy and Procedures Manual, issued by the Information and Privacy Branch of the Ministry of Government Services. The section entitled

“Audit Issues” was issued in March 1995. It provides guidance on how the Act applies to audit records in the custody or under the control of government.

In keeping with the provisions of this Act, the supporting evidence that is collected during our audits is not available to the public.

Section 3 of the *Freedom of Information and Protection of Privacy Act* states that the Act does not apply to a record that is created by or in the custody of an Officer of the Legislature and that relates to that Officer’s functions under an Act. This means that, for our Office, the Act applies to our administrative records but not to our operational (audit) records. It is appropriate that our administrative records are available to the public, for all of the reasons that apply to the rest of government, such as making us accountable for our spending. On the other hand, we do not give free access to our audit records because they contain information collected in confidence, as well as analyses of weaknesses in government processes that we believe could be used in a detrimental way by others.

The reports produced as a result of our audits are, however, readily available to the public. Copies can be obtained through our office, or at:

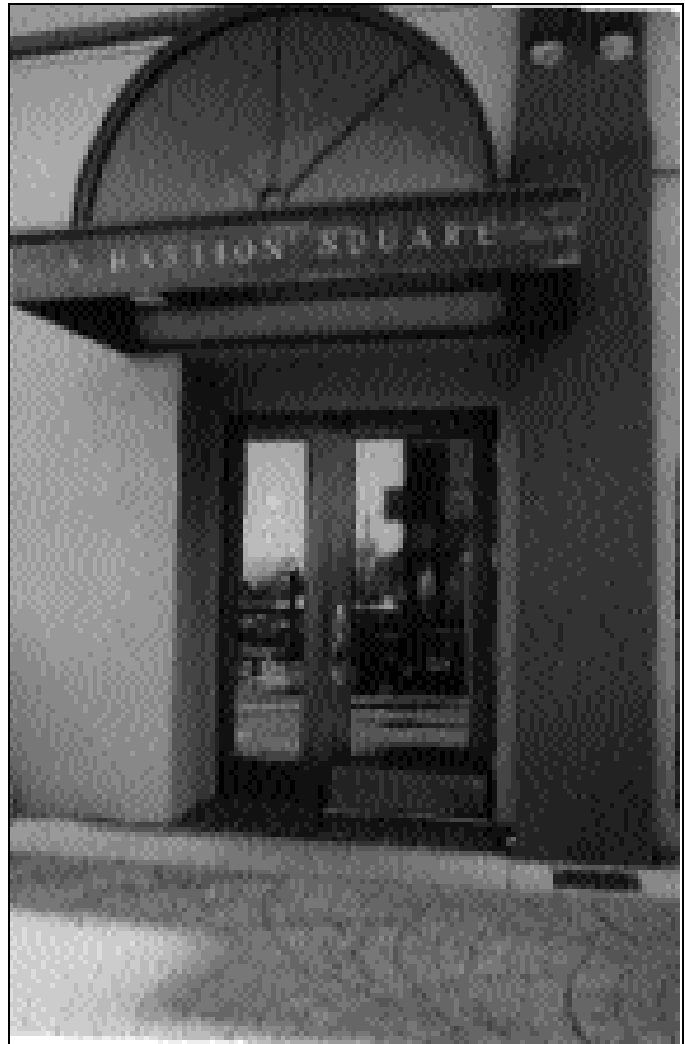
Crown Publications Inc.
521 Fort Street
Victoria, B.C. V8W 1E7
Telephone: (604) 386-4636
Fax: (604) 386-0221

We are also investigating the use of computer technology to increase the accessibility of our

reports to the legislators and the public via networks such as the “Internet.”

Facilities

The Office of the Auditor General is located in Victoria, in a heritage building at 8 Bastion Square. Although it is an old building, we have decided that the location—close to many government head offices and the Legislature—is suited to our needs. We have been located at this address for 15 years, almost as long as there has been an Auditor General in British Columbia.



The Office of the Auditor General is located in Victoria

This year, for the Office to stay at the same location, we undertook major renovations to the building and renewed our lease for 10 more years. In so doing, we expanded our space by taking over the portion of the building previously occupied by the Office of the Ombudsman, which has relocated to a new building on Fort Street. This expansion has brought us up to government space requirement standards for most of our staff.

STAFF TRAINING AND PROFESSIONAL DEVELOPMENT

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 and improving expertise in the areas unique to the public sector. During the year, each staff member received an average of 23 hours of professional development and training.

Our professional development program follows three main streams: students, professionals, and information technology. Our students are enrolled with one of the three predominant accounting organizations in British Columbia—the Institute of Chartered Accountants, the Society of Certified Management Accountants, or the Certified General Accountants Association. They also receive instruction on

matters specific to the work of our Office, coupled with an extensive on-the-job training program. Seven of our articling students received their professional accounting designations in the past year.

Our professionals undertake programs to develop their expertise in financial, value-for-money, and compliance-with-authorities auditing. The programs comprise courses in both advanced technical and management subjects and communication skills. Our Computer Services Group coordinates and presents basic and advanced computer and EDP auditing courses to our staff. Our staff also attend outside courses, seminars, and conferences on subjects relating to their areas of professional interest.

Our value-for-money audits require a broad understanding of management processes, and as such, we encourage our staff who do not have degrees in business administration to obtain further training. As part of this program, some of our value-for-money staff are enrolled in courses for management consulting, and this year another staff member earned the designation of Certified Management Consultant.

In addition to the training that is unique to our Office, our employees receive training in government-wide initiatives such as employment equity and the awareness and prevention of harassment in the workplace.



Gordon Dawson welcomes Bill Burnett to the Office as part of our Exchange Program

Exchange Program

The Office participates in exchange programs with other legislative audit offices throughout Canada and overseas. Last year, the Executive Principal of our Compliance and Special Projects Division, Gordon Dawson, was on a one-year exchange in London, England, with the National Audit Office, an office of 800 staff responsible for audits of government ministries and agencies throughout England, Wales, and Scotland. While there, he studied the latest techniques in compliance auditing, with assignments ranging from military establishments to agricultural colleges. In return, Bill Burnett, an Audit Manager with the National Audit Office who has value-for-money and financial audit experience, is currently working in our Value-for-Money Auditing Division.

Secondments

The Office has been participating in a secondment program for many years now. During this past year, six staff members assisted ministries and Crown corporations by filling temporary vacancies in these organizations. All our secondees had university and/or suitable professional training, and their special expertise was appreciated by the government entities they served. For our part, we welcomed the opportunity for our staff members to sharpen their line management skills and to become more familiar with the operating aspects of government ministries and Crown corporations.

Conferences

Office staff, from time to time, attend professional conferences to compare the ways we do business with those of others, and to learn

about specialized areas of expertise. For example, in February 1995, one of our audit principals attended a two-day conference in Washington, D.C., on the subject of "Implementing the *Government Performance and Results Act*." This very significant legislation, aimed at improving the performance and accountability of United States federal government agencies, is of great interest to this Office as it relates to the Auditor General's goal of improved government accountability in British Columbia.

PROFESSIONAL ACTIVITIES AND AFFILIATIONS

Association and Committee Memberships

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

- Institute of Chartered Accountants
- Certified General Accountants Association
- Society of Certified Management Accountants
- Institute of Certified Management Consultants
- 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

Several of our staff are members of the executives or of various committees of these bodies and others are involved in research and technical projects. In this regard, mention should be made of the following:

- Frank Barr, Executive Principal, member of the Not-For-Profit Task Force of the Public Sector Auditing and Accounting Board of the Canadian Institute of Chartered Accountants, and the Local Government Affairs Sub-committee of the Institute of Chartered Accountants of British Columbia
- Ian Davies, Senior Project Leader, member of the Executive of the Regional Chapter (B.C.) of the Canadian Evaluation Society, provincial representative to the National Council of the Canadian Evaluation Society, and Office representative for the environmental management and interest group of the Canadian Institute of Chartered Accountants
- Gordon Dawson, Executive Principal, 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

- Endre Dolhai, Principal, member of the Membership Committee of the Institute of Chartered Accountants of British Columbia
- J. Peter Gregory, Executive Principal, member of the Research Committee of the Canadian Comprehensive Auditing Foundation
- Fred Heard, Manager, Acting President of the Information Systems Audit and Control Association (formerly the EDP Auditors Association), Victoria Chapter
- Terence P. Mackian, Principal, Administration, member of the Practice Review and Licensing Committee, chair of the sub-committee on practice review planning, 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

The Auditor General is Vice-Chair (Chair as of April 1995) of the Public Sector Auditing and Accounting Board of the Canadian Institute of Chartered Accountants. As well, he serves as a Governor of the Canadian Comprehensive Auditing Foundation and a member of the Foundation's Governance Advisory Group.

Canadian Conference of Legislative Auditors

The Canadian Conference of Legislative Auditors (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. Three people from the Office attended the 22nd annual meeting held in Charlottetown, Prince Edward Island, in July 1994. At the meeting, Errol Price, a Principal in our Office, made a presentation summarizing our accountability initiative and discussing the components of government accountability. In April 1994, he made a follow-up presentation on this subject at the annual meeting of the western COLA held in Manitoba.

Errol also participated during the year in a COLA study group looking at the issues of significance and levels of assurance in value-for-money audit reporting. The initial results of the study group's work were presented to the COLA meeting in July and a follow-up study was reported at a fall meeting of COLA held in Ottawa in November 1994.

Canadian Comprehensive Auditing Foundation

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

The Office has been a member and supporter of the foundation since its formation in 1980. The Auditor General is an elected member of its Board of Governors, and is also a member of the Foundation's Governance Advisory Group.

Two staff members attended the CCAF's annual legislative auditors conference held in Winnipeg, Manitoba, in May 1994. The conference had four main sessions, one of which focused on government accountability and was chaired by our audit principal, Errol Price.

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

To date, the Board has issued nine accounting statements, four auditing 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. The Auditor General is PSAAB's Vice-Chair (Chair as of April 1995).

Community Service

Our Office is of a relatively small size, yet over the last six years we have raised over \$16,000 for Christmas charities with our annual Office gift auction. As well, we have a 100% participation rate in the Provincial Government Employees' Community Services Fund. This has earned us a United Way Gold Award in each of the last four years.

Our staff are also involved, through volunteer work or fund raising, with many charitable, service, and community organizations. We are justifiably proud of their generosity and commitment.

