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BC AUDITOR GENERAL



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OFFICE OF THE
Auditor General
of British Columbia

1997 Annual Report

*Auditing in the
Public Interest*

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The Honourable Andrew Petter
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 10 of the Auditor General Act.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
October 1997

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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auditing in the public interest

This year, 1997, the Office of the Auditor General marks its 20th year of service to the Legislative Assembly and citizens of British Columbia.

Throughout these 20 years, we have remained dedicated to providing the public and elected officials with the independent assessments and advice that ultimately contribute to better government accountability and performance for all citizens.

our mission

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

our values

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

*Preserving its **independence**, which is crucial to its credibility, and using it in the public interest.*

*Exercising **due care** in all aspects of its work in order to provide accurate, reliable assessments and sound advice.*

*Striving to maintain **public trust** by conducting its work fairly, professionally and with integrity.*

auditor general's comments



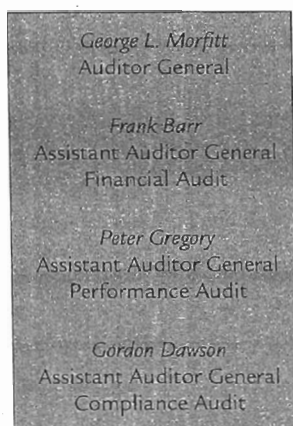
This year has been an eventful one for my Office, as a new parliament was formed following a general election in May 1996. The Auditor General's primary responsibility is to the Legislative Assembly and, consequently, a change in the membership of the House means a time of renewal and adjustment for my Office.

The political landscape invariably changes with the arrival of newly elected representatives and the infusion of new ideas and priorities. As a result, my Office was active following the election, informing members of the Assembly about the role and function of the Auditor General and of the services the Office provides to them and to the citizens of British Columbia. We communicated this information through presentations, meetings and written material.

During this last year, for example, we provided information about our role in two publications: one, a brochure entitled *Auditing for Better Public Sector Accountability and Performance*, and the other, our Office's five year *Corporate Plan*. Additionally, we provided information about our role in the appointment of auditors in the British Columbia public sector—in *A Guide to the Appointment of Auditors of Government Organizations*—and about our service standards—in a brochure called *Our Commitment to Service*.

We took the opportunity when communicating with Members of the Legislative Assembly (MLAs) to find out what they expect of my Office, so that we can best meet the needs of the Members and the public they represent. Over the past year, I have also worked closely with the Select Standing Committee on Public Accounts to identify and discuss those issues that are important to the MLAs and their constituents, and have had the pleasure of communicating with citizens of our province through formal presentations and on open-line radio and community television programs.

Meeting the needs of the Members and of the public is an over-riding concern of my Office. I believe these needs can best be met by an effective, well-performing organization—one that is clear about its role and strategic



direction, is focused on results, and measures and adjusts its performance accordingly. With this in mind, my Office has been developing, and is beginning to implement, a range of performance management and reporting practices. These practices will help us measure and improve our effectiveness as an organization and enhance the accountability information we provide to the House and the public.

My annual report to the Legislative Assembly this year is written with this intention in mind. It is structured around the four strategic objectives of the Office, describes our accomplishments for the past year, and sets out some early performance indicators for the coming year. The report covers the 1996/97 fiscal year, but also describes several ongoing activities that have been underway since then that we believe would be of interest to our readers.

An important step in measuring our performance is to determine the quality and value—to MLAs and the general public—of our products. This year we have included reader response sheets with our public reports. You will find such a survey in Appendix D to this report, and I welcome your comments and assistance in helping us serve you better.

Instituting a results-based way of managing is a challenge for many of us. Changing old habits and the culture that supports those habits is not easy to do; change brings uncertainty and adjustments that, initially, are difficult to make. But I also know that with time these adjustments will be made. We will bring a greater focus to results—both in the way we audit and in the way we account for our own performance—and we will continue to provide the citizens of British Columbia with the highest standard of professional service.

We could not do so, of course, without the continued support and involvement of those in the public sector. I wish to thank the many people we dealt with in ministries and other government organizations over the past year. We share a common interest in serving the citizens of the province, and my staff have received excellent cooperation from everyone we have contacted. I would also thank the various private sector auditing firms we have worked with over the past year for their assistance and cooperation.

Finally, I would like to extend my appreciation to the staff of my Office for the professional manner in which they carry out their duties. Given their unfailing commitment and dedication to serving the interests of the citizens of British Columbia, I believe my staff are a fine example of the public sector at its best.



*George L. Morfitt, FCA
Auditor General*

*Victoria, British Columbia
September 1997*



the year's highlights

the year's highlights

Financial Accountability to the Legislative Assembly

The Auditor General provides the Legislative Assembly with both audit assurance on, and information about, the financial performance of government. To fulfill this duty, the Auditor General must be able to carry out directly—or have carried out—audit work that spans the spectrum of legislators' interests and responsibilities. We are currently in the midst of implementing audit arrangements that will ensure the Auditor General oversees all audits by private sector firms of government organizations. When fully implemented, these auditing arrangements will enhance the Auditor General's ability to provide the Legislative Assembly with information on the financial performance of government.

Promoting Accountability for Performance

The Office has continued to work closely with the Deputy Ministers' Council and with the Select Standing Committee on Public Accounts to bring about improved accountability for performance. A second joint report, *Enhancing Accountability for Performance: A Framework and an Implementation Plan*, has been issued with the Council. It includes a comprehensive accountability framework that can be used by government organizations to report fully on their organizational and program performance, financial performance, and compliance with authorities and ethical behaviour. We are pleased to see that legislators are already using the framework to discuss the costs and intended results of government programs.

Supporting Improved Governance

The impact of good governance on the performance of organizations is widely recognized. This past year, the Office undertook a review of the governance and accountability relationships and practices that exist in British Columbia. Our report on *Crown Corporations Governance* has generated a great deal of interest and support among those involved in governance for improving the systems currently in place. The Select Standing Committee on Public Accounts has endorsed the recommendations in our report and government is in the process of planning for improvements to the system.

Ethical Conduct of Government Officials

Members of the Assembly and the public are interested in more than just the operational and financial business of government. Public trust and confidence is determined, in part, by the way in which government officials conduct their business—their legal and ethical behaviour. Our review of ethical conduct, reported in *Ethics Codes in the Public Sector*, marks the first time the Office has directly examined the topic. It is a critical issue and we intend to do more audits in this area in the future.

Working with the Privacy Commissioner

The Ministry of Health, in the course of providing health services, is one of the few government ministries that collects personal information about virtually everyone in the province. Issues relating to access to this information have been addressed by the Information and Privacy Commissioner in many of his orders, but the initial collection of this information was a matter that had not been addressed. This was of concern to both the Auditor General and the Privacy Commissioner. Consequently, at the invitation of the Privacy Commissioner, the Office undertook an audit focused on the Ministry of Health's collection of personal information. We are pleased to report that both the ministry and the Privacy Commissioner agree with the recommendations arising from this audit, and the Commissioner intends to monitor the ministry's progress in implementing them.

The Government's Obsolete Accounting System

In several of its earlier reports, the Office has reported on the lack of progress in replacing the government's old central accounting system with a new Corporate Accounting System (CAS), and has also commented on the year 2000 issue—that is, the need for all systems to be able to process dates in the next decade and beyond. This year, the Auditor General has again commented on the lack of progress made in developing the CAS over the past year. And, despite our being one year closer to the year 2000, the extent of the corrective work still needed to systems critical to government operations is of great concern. While the Auditor General last year expressed some urgency in the need to replace the old central accounting system, this year he recommends that the government give special priority to both CAS and the year 2000 problem. The Office will continue to monitor and report on developments in this area.

Earthquake Preparedness—Is B.C. Ready?

The major snowfall on Vancouver Island and the Lower Mainland at the end of 1996 resulted in a call by the Attorney General for a review of the Province's emergency preparedness. This call coincided with an audit, already being planned by this Office, on earthquake preparedness. Recognizing that the Office had the independence and expertise to conduct such a review, the Attorney General has chosen to rely on the assessment of the Auditor General. We anticipate there will be high public interest in the findings of our audit when it is issued later this year.

Reviewing the Estimates Process of Government

The Estimates represent the annual financial plan of government and outline its spending plans and the resources needed. Many government, business and community groups use the accounting information contained in the Estimates to make significant operating decisions. Therefore, a well-drawn process for developing the financial plan of government must be in place to ensure it is reliable, not only for the management of government, but for all those groups affected by government's plans. As part of this review, we are examining the most relevant and up-to-date processes in use in British Columbia and elsewhere—processes that are expected to reflect the cumulative benefit of past experience. By focusing our review in this way, we believe we can identify, for the Assembly's consideration, an Estimates process that can be used with confidence by both government and many non-government groups to plan with greater certainty for the future.



our corporate profile

our corporate profile

Legislative Authority and Mandate

The Office of the Auditor General provides a critical link in the chain of public accountability, a role that is both unique and vital to the democratic process of responsible government. Under the *Auditor General Act*, we believe the role of the Office is to assist the Legislative Assembly by providing independent assessments of, and advice about, government accountability and performance.

Under the *Auditor General Act*, the Auditor General of British Columbia is appointed by the Lieutenant Governor on the recommendation of the Legislative Assembly. He is independent of government and therefore is well positioned to fulfill the Office's mandate in an impartial manner.

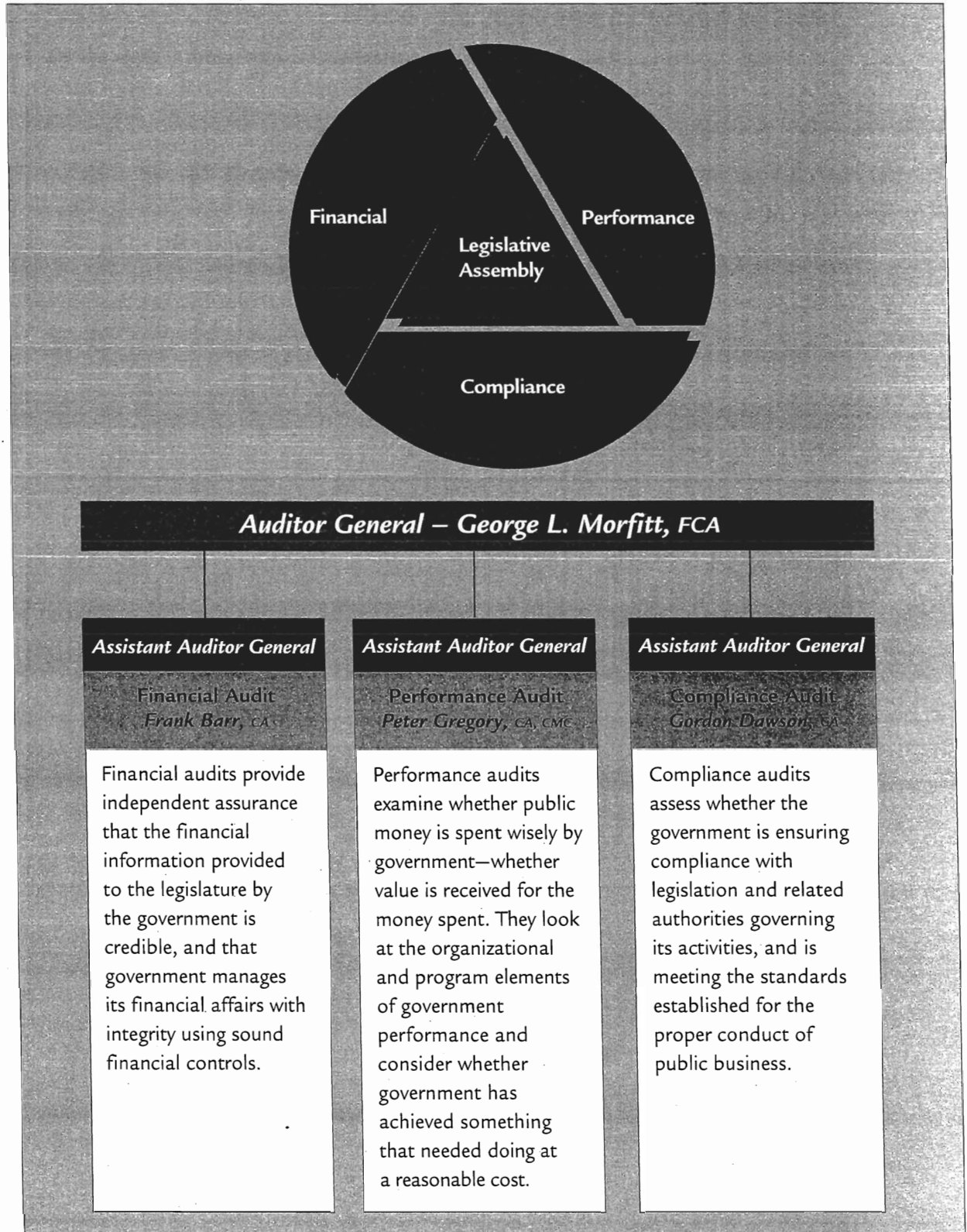
Responsibilities and Functions

In essence, the Auditor General has two roles to play in fulfilling the mandate of the Office: 1) to provide the Legislative Assembly with assurance about the performance and accountability of government, and 2) to provide advice as to how government performance and accountability can be improved for the benefit of all citizens. The Auditor General meets this responsibility by providing independent assessments of the accountability information provided by government and of the quality of government's administration in its ministries, Crown corporations and other organizations. The work is carried out either directly by the professional auditing staff of the Office or with the assistance of private sector auditing firms. Where the latter are used to audit government organizations, the Auditor General oversees and reports on the results of the audits to the Legislative Assembly.

In carrying out the duties of the Office, the Auditor General has complete independence from government in determining what to audit and what to report. Each year, the Auditor General undertakes three types of audits—financial, performance and compliance audits (illustrated in Exhibit 1)—and reports to the Legislative Assembly as they are completed. While these reports are intended for the Legislative Assembly, they also contain recommendations that can help government managers improve the effectiveness of their systems and practices in three key performance areas: organizational and program; financial; and compliance and ethical conduct.

Exhibit 1

Types of Audits Conducted by the Office of the Auditor General



The work of the Office is not confined to audits, however. Where necessary, we also carry out special projects that are of high public interest and immediate relevance. The findings of one such project we did last year are contained in our report, *Members Office Mail: Liberal Caucus January 1997 Province-wide Mailing*. We are currently working on another special project, *The Estimates Process of Government*, and will issue our report on it in the coming year.

Our audit and special reports are presented to the Speaker for tabling with the Legislative Assembly. The Office's annual report is submitted in accordance with legislation to the Minister of Finance and Corporate Relations. The Minister is required to table the report with the Legislative Assembly as early as is convenient.

Those Who Benefit from Our Work

Various groups benefit from the work we do, but generally they fall into two categories: those groups who rely on our work, such as legislators and the general public; and those whom we audit, such as government managers.

Those Who Rely on Our Work

Legislation governing the Office of the Auditor General makes it clear that the work of the Office, first and foremost, is to report to the Legislative Assembly and citizens of British Columbia on the performance and accountability of government. This we do by providing reports and briefings periodically throughout the year as our audits and special projects are completed. Our reports are typically referred to a legislative committee, the Select Standing Committee on Public Accounts. Now that a Select Standing Committee on Crown Corporations has also been established, it may be that certain of our reports—such as the two on BC Transit, *Managing Operator Productivity and Its Success as a Market-focused Organization*—will in future find their way to that Committee.

We believe our relationship with the Select Standing Committee on Public Accounts has been a very positive one over the years. The Auditor General and staff of the Office assist the Committee in its deliberations by providing summaries of findings and recommendations for each audit report, and responding to questions raised by Committee members. The assistance we provide helps Committee members evaluate areas identified for change and improvement, as well as those areas that are achieving intended outcomes. Where

Exhibit 2

Status of the Office of the Auditor General Reports as of September 1997

1995-96 Reports	1996-97 Reports
<p>Report 1 Report on the 1994-95 Public Accounts, Province of British Columbia</p> <p>Report 2 British Columbia Ferry Corporation: Fleet and Terminal Maintenance Management Operational Safety</p> <p>Report 3 Home Support Services Environmental Fire Levy Safeguarding Moveable Physical Assets Public Sector Survey Consumer Protection Act - Income Tax Refund Discounts Financial Administration Act, Part 4: Follow-up</p> <p>Report 4 Ministry of Finance and Corporate Relations: Revenue Verification for the Social Service Tax</p> <p>Report 5 Issues of Public Interest: Special Warrants Government Employee Numbers Public Communications: Distinguishing Between Government Program and Partisan Political Communications</p> <p>1996 Annual Report A Review of the Activities of the Office</p> <p>Special Report Enhancing Accountability for Performance: A Framework and an Implementation Plan</p>	<p>Report 1 Management of Child Care Grants, Ministry of Women's Equality</p> <p>Report 2 Crown Corporations Governance Study</p> <p>Report 3 Vancouver Island Highway Program Planning and Design, Ministry of Transportation and Highways</p> <p>Report 4 Trucking Safety, Ministry of Transportation and Highways</p> <p>Report 5* A Review of Government Revenue and Expenditure Programs Relating to Alcohol, Tobacco, and Gaming</p> <p>Report 6 Privacy: The 1993-94 Review, Province of British Columbia</p> <p>Report 7 Management of Hazardous Waste and Contaminated Sites</p> <p>Report 8 Executive Severance Practices: Government Ministries and Crown Corporations</p> <p>Report 9 BC Transit: Managing Operator Productivity BC Transit: Its Success as a Market-focused Organization</p> <p>Report 10 Privacy - Collection of Personal Information by the Ministry of Health Ethics Codes in the Public Sector Status of Public Accounts Committee Recommendations Relating to Prior Years' Audits</p> <p>Report 11 Follow-up of Performance Audits Issued November 1993 to December 1995</p> <p>Special Report** Members' Office Mail: Liberal Caucus January 1997 Province-wide Mailing</p>

- The reports of the Office were referred to the Select Standing Committee on Public Accounts. The Committee has considered the issues raised in our reports in preparing its report to the Legislative Assembly.
 - The reports of the Office were referred to the Select Standing Committee on Public Accounts. The issues raised in our reports have been reviewed by the Committee, but the Committee has not yet reported on the issues to the Legislative Assembly.
 - The reports of the Office were referred to the Select Standing Committee on Public Accounts. The issues raised in our reports have not yet been reviewed by the Committee.
- * The report was tabled in the Legislative Assembly but has not yet been referred to the Select Standing Committee on Public Accounts.
- ** This report was addressed to the Speaker in his capacity as Chair of the Legislative Assembly Management Committee and subsequently tabled in the Legislative Assembly. The issues raised in this report have not been reviewed by a committee of the Assembly.

appropriate, the Office has also provided support to the Committee in making its reports of recommendations to the Legislative Assembly.

Exhibit 2 lists recent reports produced by the Office and indicates what action the Select Standing Committee on Public Accounts has taken on them. In 1996/97, the Committee issued three reports to the Assembly dealing with a range of audit matters raised by the Auditor General.

Since 1995, the Select Standing Committee on Public Accounts has been meeting when the House is not in session. We welcome this change, as it allows the Committee to carry out a more thorough and timely review of the matters included in our reports. We also appreciate the opportunity to meet with the Committee more often, and take this as a sign that the work of the Office is highly valued.

An important part of our audience is, of course, the citizens of British Columbia. While we encourage, and often receive, letters from private citizens, this year the Auditor General made a more concerted effort to communicate directly with the people of the province, making presentations and appearing on open-line radio and community television programs. We believe it is important for citizens to understand the role of the Auditor General and, more importantly, for the Office of the Auditor General to be responsive to the concerns of the public. In the coming year, the Auditor General will continue to speak with the citizens of British Columbia about the issues that are important to them.

Those Whom We Audit

Providing the Legislative Assembly with assurance and advice about government's performance is integral to what we do. This requires us to audit the work of the government and to work closely with those who are most knowledgeable about its programs. In some cases, our presence in an organization during an audit can prompt immediate changes in the way government programs and services are managed and delivered. We view this as a direct and positive impact of our work.

We strive to maintain a positive and constructive relationship with those we audit, while ensuring that the interests of the Legislative Assembly are not compromised. The recommendations we propose are closely scrutinized by those who will be responsible for their implementation. We welcome this scrutiny because public sector managers can provide us with a good, first review as to whether our recommendations are feasible and practical. Ultimately,

however, it is the Assembly to whom we report and it is its interests that must prevail.

Our Operating Philosophy

Our Independence

One of our most critical assets is our independence from government. Hence, the Auditor General reports only to the Legislative Assembly. To carry out the Office's examinations, the Auditor General is given the right of access to the records of account and administration of government, the power to request and receive any information, reports or explanations he or she requires, and the power to examine any person under oath on any matter pertaining to the responsibilities of the Auditor General.

In addition to these important aspects of our independence, we take other precautions to ensure that our work is credible to both the Assembly and the public. We do this by ensuring that staff are sensitive to the political process and knowledgeable about the traditions and laws regarding political neutrality.

We also ensure that staff interests do not conflict with the audits that are under way and we are careful to restrict our audits and examinations to the *administration* of government.

Auditing Government's Performance Directly

Legislative auditors take two approaches to fulfilling their mandates. The first—referred to as *attestation*—is the provision of audit opinions as to the fairness of management's publicly reported accountability information on its performance. Financial audits are typical of the attestation approach, where management prepares financial statements—which are assertions about the organization's financial position and results of operations—and the auditor comments on the fairness of those assertions.

We believe that management reports on performance, along with independent audit, are the best way of meeting accountability responsibilities. However, with the exception of financial statements, government organizations generally do not provide comprehensive accountability information publicly.

Therefore, in the absence of reports from management, the second—and only practical way—for auditors to fulfill their mandates is to gather management information directly and to include it in their own reports along with their opinions. This is known as the *direct reporting* approach and is typically used in auditing government's organizational and program performance, as well as its compliance with authorities and

ethical behaviour. In these cases, the auditor comments on the performance of the organization directly, as opposed to commenting on an assertion or representation made by management. In effect, a direct audit report becomes a partial substitute for information that might otherwise be provided by managers on how they have discharged their responsibilities.

How We Approach Our Work

Financial attestation audits are done each year; direct audits of the organizations of government are conducted on a cyclical basis. When selecting our audits, we consider all of government, including its ministries, Crown corporations and agencies. We may also undertake reviews of provincial participation in organizations outside government, if they deliver significant government programs and receive substantial provincial funding.

Audit subjects are selected based on the significance and interest of an area or topic to our primary clients (MLAs and the public) and on the level of risk involved. However, we do not focus exclusively on areas of high risk or known problems, nor do we deliberately seek out areas where cost savings could be made. This approach is consistent with our mandate: to provide the Legislative Assembly with *assurance* about the performance of government and *advice* where there are opportunities for improvement. Our aim is to provide the Assembly with a “snapshot” of government’s performance, including positive assessments where warranted.

Shifting our Audit Focus

In the past, our direct audits have tended to focus on processes—whether the procedures and controls that are actually in place look reasonable and are likely to lead to the intended results being achieved—and, to a lesser extent, on the actual results achieved. With the growing emphasis on accountability for performance, however, our audits will increasingly focus on the results that the organization or program has attained. Where results information is available (and reported publicly), we intend to spend less time examining processes and concentrate on assessing the accuracy of the results. We began our audit on *Trucking Safety* following this approach, but subsequently found that results information was not available. As it was not feasible to collect the information ourselves, we instead examined and commented on the processes that the program followed.

Auditing the results of government's programs and services is in keeping with the interests of the Legislative Assembly. In private discussions and in public comment, legislators have made it clear that audit work that is based more on results would be of greater use to them.

Meeting Professional Standards

The audits we undertake are carried out in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants. As well, we consider international auditing standards when planning our audits. These standards are rigorous and demanding, but designed to ensure that our audit findings are based on well-substantiated evidence. Furthermore, all staff of the Office are committed to maintaining the trust and confidence of those we audit and those who rely on our work by:

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

These service standards are published in *Our Commitment to Service* booklet so that government organizations know what they can expect from us as we carry out our work.

Our Staff

For the last nine years, the Office has been under the leadership of George Morfitt, Fellow of the Institute of Chartered Accountants of British Columbia. He is assisted in his role as legislative auditor by three Assistant Auditors General and a staff of 91. Eighty-six percent of our staff are directly employed in audit and related work, while the remainder provide technical assistance and staff support.

Our staff is our greatest strength and we are fortunate to have a highly skilled and motivated workforce. We employ professionals with knowledge, skills and abilities that reach far beyond accounting and auditing expertise. Various staff are well-versed in public administration, political science, law, research methods and general management. They are also skilled interviewers, negotiators and communicators.

Many of our staff hold accountancy and management consulting designations, and these are often accompanied by university degrees in commerce, business and economics. We also have staff with degrees in such diverse areas as nursing,

health, architecture, public administration, law, psychology, education, criminology and library sciences.

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

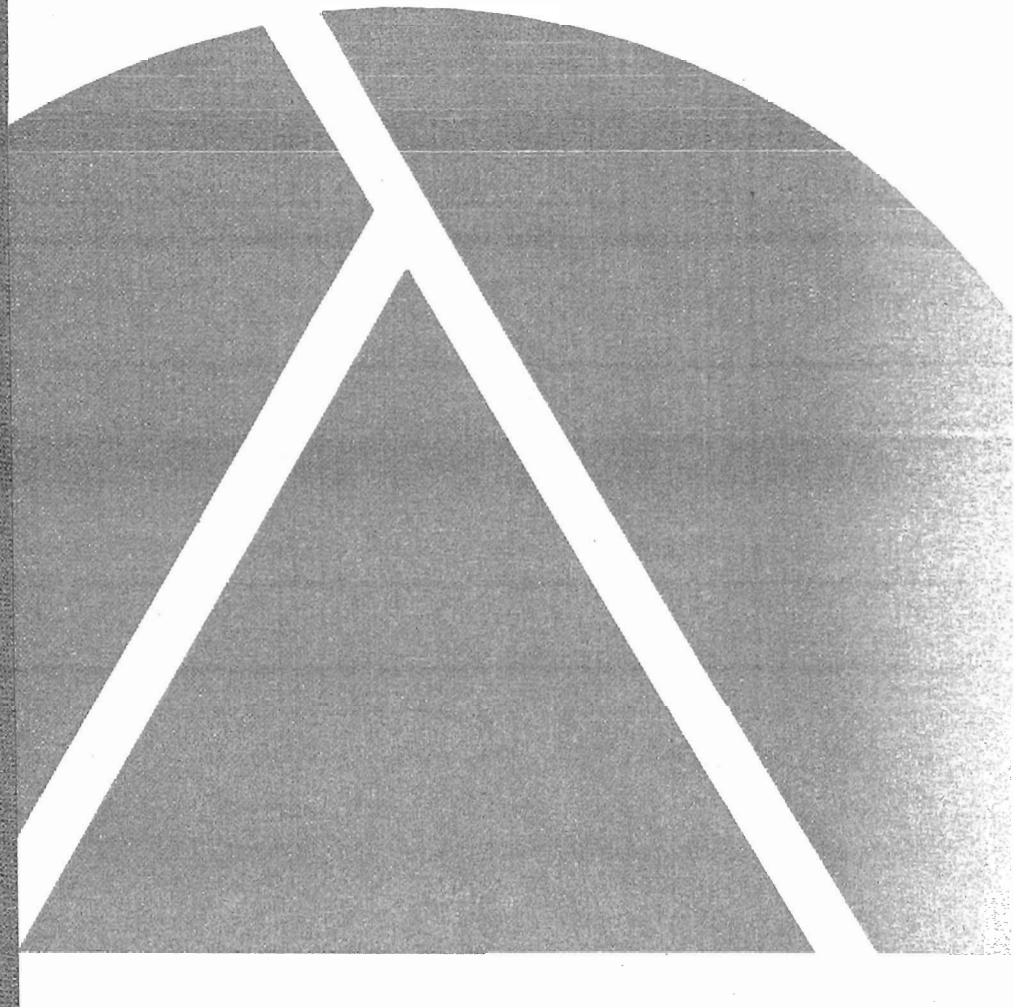
Our staff take part in exchange programs with other legislative audit offices and government organizations. This year we completed an exchange that began two years ago with the National Audit Office in the United Kingdom, where one of our Assistant Auditors General spent the year participating in audits and studying the latest techniques in compliance auditing. In return, a manager from the National Audit Office joined this Office to carry out direct auditing work at the provincial level. He has since completed his assignment with our Office and returned to the United Kingdom.

The Office also participates each year in a secondment program, lending our staff to ministries and Crown corporations and, in turn, employing government personnel. This past year, three of our staff gained valuable experience in their secondments to the University of British Columbia, Columbia Power Corporation and Elections BC. We currently have one staff member seconded to us from the Ministry of Human Resources.

Outside the Office, our staff are active members of the community. Many are involved in volunteer work and fundraising with charitable, service and community organizations. This year, Geoff Stagg, a member of our staff, was selected by the Institute of Chartered Accountants of British Columbia as the Victoria area Chartered Accountant of the Year for his work with Volunteer Victoria. These awards are given across the province each year to recognize chartered accountants who make outstanding contributions to their communities. We are pleased that this is the second consecutive year a member of the Office has been recognized in this way.



our planning process



our planning process

Our Corporate Plan

As an Office, we take pride in our past achievements. However, the developments taking place in public sector administration, accountability and auditing have required us to examine the way we fulfill our role. To build on our strengths and allow us to meet the challenges we know we will face in the coming years, we are therefore adjusting the services we provide and the way we provide them. To guide us in making these adjustments, we underwent a strategic planning process, the main result of which is a corporate plan for the Office which covers the period 1996/97 to 2000/01.

The plan sets out the four strategic directions and key objectives which will guide us over the next several years and provides the backdrop for more detailed, year-to-year operational plans. Beginning this year, the corporate plan will also form the basis of our own accountability to the Legislative Assembly and the public.

Our Operational Plans

We have been focusing this past year on operational planning and the development of appropriate performance measures. This work is still in a formative stage and will require continued and concentrated effort among the executive and staff of the Office. To some extent we are adjusting to the way we do business: we are shifting the focus of our work from a functional to a project-driven approach, in terms of the way we manage, fund and account for our results. Our intention is to have operational plans, with initial performance measures established for each key objective, finalized by early next year.

Our Performance Measures

Every year, our Office sets targets for the costs and timeliness of our services—straightforward measures we use to help us monitor our operations. For 1997/98 we have done the same, the only difference being that we have formalized the measures and made a public commitment to meeting them.

We are also taking steps to establish baseline measures of quality that will allow us to monitor our progress and compare it to available benchmarks. An important indicator of the quality of our services is the value that our stakeholders

place on such services. We want to know, for example: Are our assessments and opinions useful to MLAs, the public in general and to management? Is the information contained in our reports meaningful to the reader?

We obtain information about the quality of our work in several ways. Our public reports, for example, normally include the response of management responsible for the matters included in our audits. While we have generally found that management agrees with our conclusions and recommendations, in some instances this is not the case. When that happens, we include both points of view in our audit reports so that the Select Standing Committee on Public Accounts has more complete information to consider when it reviews the reports. If the Committee agrees with our recommendations, it will include them in its report to the Legislative Assembly.

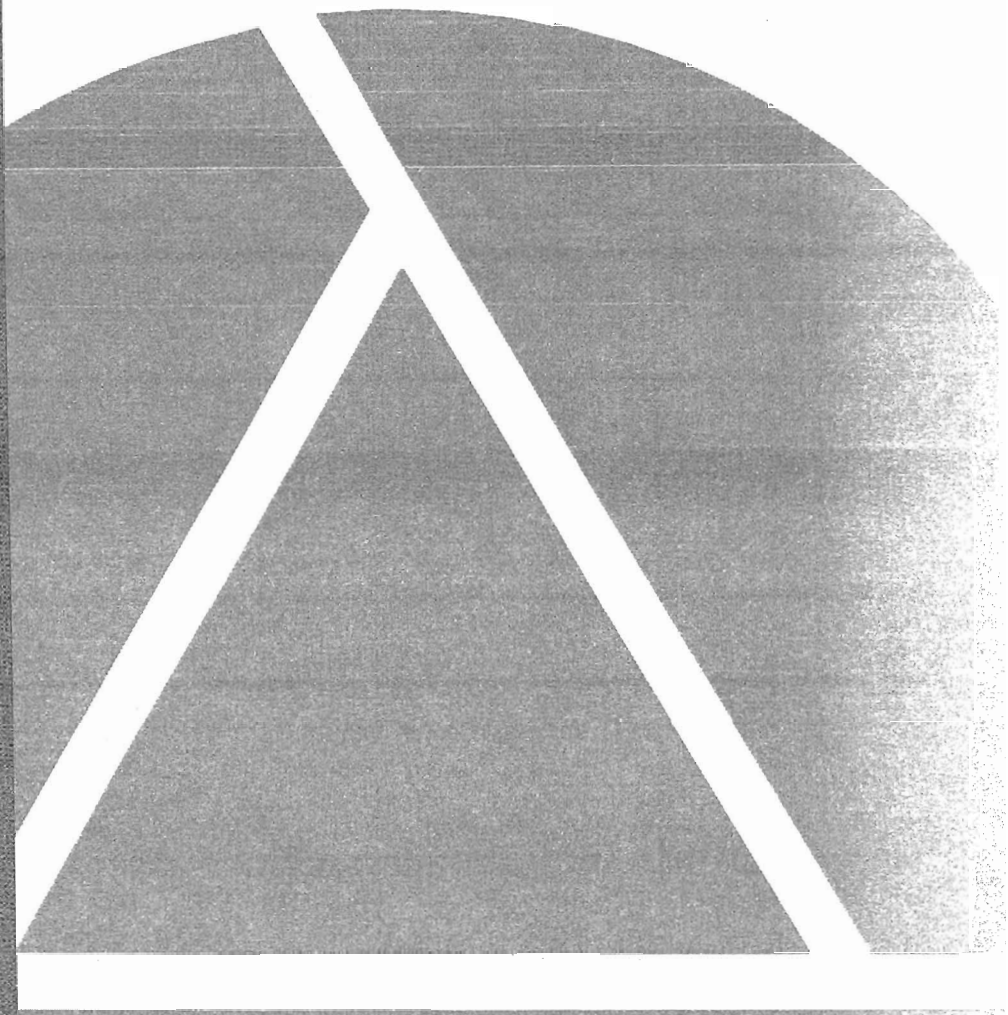
Another way we assess the quality of our work is to follow up on whether our recommendations have been implemented. This information we again provide to the Select Standing Committee on Public Accounts for its consideration and comment.

Finally, we gather feedback, by surveys or interviews, that will allow us to measure the level of acceptance of our work. Over time, we will be able to track this measure, determine trends and possibly compare it to the performance of others.

None of these indicators by themselves gives a complete measure of whether our audit conclusions and recommendations are right, partly because of the conflicting roles, responsibilities and points of view of those involved. Consequently, we are also focusing on the outcomes or impacts of our work—primarily the assurance we provide and the extent to which we contribute to improved public administration. Because these impacts are difficult to circumscribe and assess validly, we are working closely with all legislative audit offices in Canada to develop meaningful performance indicators and a consistent approach to outcome measurement. Doing so will take thought and time, but it is necessary if we are to have a common basis for evaluating and comparing the effectiveness of all our offices.



the year in review



the year in review

Our review of performance this past year is structured around the four strategic directions of the Office. We describe here our accomplishments for 1996/97 and set out some early performance measures for the coming year.



Strategic Direction

1

*To contribute
to an effective
accountability
relationship
between the
government and
the Legislative
Assembly*

Good accountability is essential for there to be public trust and confidence in the institutions of government. We contribute to the public trust by making the organizations of government aware of the need and benefit of reporting honestly and fairly on all aspects of their performance. Our efforts are supported by legislators and senior government officials alike; both have endorsed the accountability principles and framework that we advocate.

Over the past year, the Office worked to achieve Strategic Direction 1 by:

- promoting accountability for performance throughout the public sector;
- furthering the acceptance of a comprehensive accountability framework for government;
- helping improve the financial accountability of government; and
- contributing to improved governance within the organizations of government.

Accomplishments

Promoting Accountability for Performance

The Auditor General issued a second joint report with the Deputy Ministers' Council entitled, *Enhancing Accountability for Performance: A Framework and an Implementation Plan*. This report represents the Office's continuing interest in seeing improvements in the accountability information that government provides to the Legislative Assembly—information that reflects what government achieves compared to its plans—and in the way the Assembly uses such information. The report includes an implementation plan for reforming the performance management system of government. As part of this plan, the 1997/98 Estimates include a pilot project that

provides the Legislative Assembly with performance measures for four government programs. This represents an early but important step toward enhanced accountability.

The Select Standing Committee on Public Accounts provided explicit support for the initiative in two reports it provided to the Legislative Assembly. The Committee made 10 recommendations in all: four focused on the information that government should report to the Assembly; four addressed the way in which legislative committees should hold government accountable; and the remaining two discussed the Estimates as part of an accountability process. The Committee also endorsed the general direction contained in the implementation plan of the Deputy Ministers' Council. Both reports of the Committee were adopted by the 1996 Legislative Assembly.

A Comprehensive Accountability Framework

This past year, we worked closely with the Deputy Ministers' Council to develop, and to have accepted, a comprehensive accountability framework. This framework, described in our 1996 joint report with the Council, provides government and its organizations with guidance in reporting fully on their organizational and program performance, financial performance, and compliance and ethical performance. The Council also made a commitment to extend the framework to funded agencies and to report on its progress in doing so. Extending the accountability framework in this way is essential if government is to account fully for its performance. Therefore, progress made in the funded agencies will be included in a progress report on government as a whole, to be issued in the fall of 1997.

Acceptance by government of the accountability framework is a key objective for this Office. We are pleased that the Select Standing Committee on Public Accounts, in a report to the Legislative Assembly, formally endorsed the principles underlying the accountability framework and reiterated its earlier recommendations for improved accountability and performance.

Improving the Financial Accountability of Government

As an Office, we do more than audit the financial statements of the province. We also take an active role in promoting better financial accountability by focusing on the government's annual report, for example, and on critical issues such as the importance of full accrual accounting, and by reporting on government's efforts in these areas.

Strategic Direction 1: Reports of the Office, 1996/97

- *Enhancing Accountability for Performance: A Framework and an Implementation Plan*, issued jointly with the Deputy Ministers' Council of British Columbia
- *Crown Corporations Governance*, Report #2
- *Improved Accountability Through Better Information*, Report on the 1995/96 Public Accounts, Report #6

Government's Annual Report—Last year, in our *Report on the 1994/95 Public Accounts*, we commended the government for presenting an annual report as part of the Public Accounts. Although very concise, the annual report included an overview which provided financial analysis and written commentary on financial results and accomplishments at the government's summary financial reporting entity level. We expected the government to provide further valuable accountability information in its 1995/96 annual report.

Instead, however, we found that the annual report contains only a summary overview of the 1995/96 fiscal year's operations and a brief overview of provincial financial reporting. We think the limited information the government has chosen to publish in its annual report to British Columbians is disappointing, and we will continue to press for more comprehensive information.

More of Government is Consolidated—We are pleased to see that, after consideration of the issue over the years and discussion with our Office, the government has broadened its financial reporting entity. This means that all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and are owned or controlled by the government, are now included in the government's financial statements. This includes 75 school districts, 120 health care organizations and related corporations, 29 regional hospital districts and 25 universities, colleges and universities. For the first time, the financial statements of government reflect a full accounting of the nature and extent of the financial affairs and resources for which it is responsible.

Full Accrual Accounting—Over the past several years, we have encouraged government to move to a full accrual basis of accounting and this encouragement is meeting with success. The government is now committed to capitalizing the costs of physical assets and amortizing them over their useful lives, rather than expensing physical assets on acquisition. As a

result, all program costs—both capital and operating—will be charged to government programs on an annual basis. This means that legislators and the public will be better able to determine the full costs of a program in any given year.

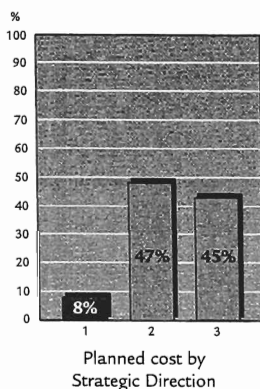
Contributing to Improved Governance

Governance and accountability structures across the public sector vary widely, depending on the organizational and funding arrangements that government creates. Government programs, for example, are generally carried out through ministries, Crown corporations and agencies. However, no matter how these entities are structured or funded, government remains accountable for them to the Legislative Assembly.

It is widely recognized that the way in which governance responsibilities are discharged has a significant impact on the performance of organizations in both the private and public sectors. With this in mind, the Office undertook a review of the governance and accountability relationships and practices that exist in British Columbia. The recommendations of our report, *Crown Corporations Governance*, have been endorsed by the Select Standing Committee on Public Accounts, which in turn recommended that government review the current structure of Crown corporations. The government is now in the process of performing this review and deciding on the changes to be made.

During the year, the Office also undertook a study of governance and accountability in the regionalization of health care in British Columbia. The results of the study will be reported in late 1997.

Performance Measures 1997/98



The Auditor General has no direct role in implementing changes to the way government manages and accounts for its performance. Our efforts in bringing about improved accountability are based on the cooperation and mutual respect of legislators and of senior government officials. Therefore, a key determinant of our success is the degree to which we are perceived to be:

- honest and forthright in our dealings; and
- willing to consider and respond to comments, suggestions or queries from legislators and government officials.



Strategic Direction

2

To assess whether the accountability information provided by government to the Legislative Assembly and the public is fair and reliable

To instill public confidence, the information that government provides must be seen to be fair and reliable. We contribute to the public trust by providing the people and the Legislative Assembly with this assurance. The auditing arrangements we have in place will have, in time, the Auditor General overseeing the audits of all organizations included in the government financial reporting entity.

Over the past year, the Office worked to achieve Strategic Direction 2 by:

- attesting as to the fairness and reliability of financial statements;
- attesting as to the fairness and reliability of other management assertions;
- auditing progress against the Debt Management Plan;
- bringing order to public sector auditing; and
- laying the groundwork for auditing results-based performance information.

Accomplishments

Attesting to Financial Statements

Most of the accountability information government provides to the Legislative Assembly is financial in nature. As a result, the bulk of the attestation work we do relates to the financial statements of government. The Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of British Columbia. As in previous years, this year we issued opinions as to the fairness and reliability of these statements in our report included in the 1995/96 Public Accounts. We also provided audit opinions on the Consolidated Revenue Fund Financial Statements of government and its organizations.

The Summary Financial Statements of the Province for the 1995/96 fiscal year include the results of many more government organizations than ever before. Thus, in addition to the results of the financial activities and operations of the Consolidated Revenue Fund and 43 other government organizations and enterprises, the statements include—for the first time—the results of the province's 29 regional hospital districts, 120 hospitals and hospital societies (health care organizations), 75 school districts, 19 colleges, 5 universities, and the British Columbia Institute of Technology.

The report we publish on the Public Accounts in any year must necessarily first await the issuance of the Public Accounts by the government. As the 1995/96 Public Accounts were not made public in the Legislative Assembly until April 1997, the release of our report therefore had to be delayed. Once tabled, however, it was referred immediately to the Select Standing Committee on Public Accounts which has since completed its review.

Attesting to Other Management Assertions

Apart from the financial auditing we do, we typically do not attest to the public information that government provides about its performance. Instead, we rely on direct audit—that is, gathering management information about government's performance directly, and including our assessment of it in our audit reports. This year, however, we adopted the attestation approach to determine what action had been taken on the recommendations we raised in eight earlier performance audit reports. We conducted this follow-up to provide the Legislative Assembly and the public with necessary information on management's progress in implementing the recommendations we made when the audits were carried out. This is an important aspect of the accountability process, as it holds those who conduct public business accountable for the prudent and effective management of the resources entrusted to them.

Our general approach was to ask management to provide us with written reports describing what action had been taken with respect to our recommendations. We then reviewed these reports to determine whether the information reported was presented fairly, in all significant respects. We concluded for each report that it was.

Although we were pleased to find that action had been taken to implement most of the recommendations we made in our eight previous performance audits, we also noted that progress has been slow in some areas. Detailed information on the results of our follow-ups can be found in our report entitled, *Follow-up of Performance Audits Issued November 1993 to December 1995*. We anticipate that the report will be discussed by the Select Standing Committee on Public Accounts next year.

Auditing Progress Against the Debt Management Plan

Each year, since the Auditor General's *Report on the 1991/92 Public Accounts*, we have commented on the government's reporting of public debt. We have stated that if information about debt were better reported, the public would

Strategic Direction 2: Reports of the Office, 1996/97

The Auditor General attested to the fairness and reliability of:

- the Summary Financial Statements of the Province; and
- the Consolidated Revenue Fund Financial Statements.

We also audited the financial statements of 58 other organizations with assets and expenses of \$68.2 billion and \$32.6 billion, respectively. These include organizations as diverse as British Columbia's universities, the Workers' Compensation Board, Forest Renewal BC, pension plans, and investment funds.

In the *Report on the 1995/96 Public Accounts*, the Auditor General reported on these audits and listed all the organizations he audits.

The Auditor General also attested to the fairness and reliability of other management assertions in:

- Follow-up of Performance Audits issued November 1993 to December 1995, 1996/97 Report #11

be better able to understand provincial borrowing and how it affects them. We have also made several recommendations as to how the reporting of debt information could be improved, one of which was that the government should include 10 key measures and performance indicators to show trends in provincial debt. Audited information on debt measures, performance indicators and benchmarks reported by government as of March 31, 1996 is included in our *Report on the 1995/96 Public Accounts*. One point we noted was that the government missed making its direct debt repayment of \$414 million scheduled for the 1995/96 fiscal year. Although this Office does not audit the Debt Management Plan itself, we do make specific suggestions in the report as to how the public's understanding of the government plan to manage debt can be enhanced.

Bringing Order to Public Sector Auditing

The Auditor General is required by the *Auditor General Act* to examine the accounts and records of government and to report annually to the Legislative Assembly on the government's financial statements. As well, the Auditor General is the appointed auditor of many, but not all, Crown corporations and other government organizations. The financial statements of the remaining government organizations are audited by private sector auditors. Regardless of which entities he or she is responsible for auditing, the Auditor General must, to serve the Legislative Assembly properly, be in a position to provide audit services that span the spectrum of legislators' interest and responsibilities.

In 1995, the Auditor General entered into a Memorandum of Understanding with the Minister of Finance and Corporate Relations. While the Memorandum does not alter the Auditor General's responsibility for auditing the financial statements of central government and the government's summary financial statements, it does recognize the overall responsibility of the Auditor General for audits conducted by private sector firms of organizations that are within the government's financial reporting entity. It also provides a mechanism for periodically changing those audits which the Auditor General carries out directly.

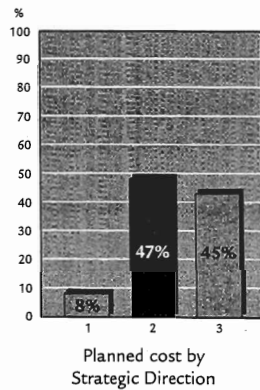
In 1996/97, for example, the Auditor General transferred the British Columbia Health Care Research Fund to a private sector firm for auditing. In addition, three organizations—the British Columbia Assessment Authority, the Creston Valley Wildlife Management Authority Trust Fund, and the Provincial Capital Commission—are now being audited by private sector firms as the Auditor General's agents. In turn, the Auditor General is now the auditor of two organizations previously audited by private sector firms. They are the British Columbia Buildings Corporation and the British Columbia Transportation Financing Authority. In the next year, the Auditor General expects to audit one of the university-colleges, and to release, under agency purview, the audits of the Legal Services Society and the British Columbia Institute of Technology.

Auditing Results-based Performance Information

Legislative auditors have been commenting on the appropriateness and reliability of government's financial statements for some time, and the Canadian Institute of Chartered Accountants has developed generally accepted financial accounting principles and auditing standards to guide them in this work. However, such principles and standards do not yet exist for other aspects of government performance, such as organizational and program performance or compliance with authorities and ethical performance.

This past year, legislative auditors from across Canada established a study group to examine public sector accountability. The group, chaired by a member of this Office, is working on a set of guidelines or draft principles that will include the main aspects of public sector performance and be supported by the key participants in the accountability relationship (governance, management and audit). The results of this work could, we believe, serve as a basis for the subsequent development of standards for performance reporting and auditing in the public sector.

Performance Measures 1997/98



The Public Accounts is one of the most important financial accountability documents provided by government. Much of what we do in our *Report on the Public Accounts* is to provide the public and Legislative Assembly with assurance that the information provided is fair and reliable. Therefore, our key targets are to:

- issue the *Report on the Public Accounts* within one month of public release of the government's Public Accounts; and
- have the advice we provide with respect to improving accountability information (contained in our management letters and public reports) accepted over a two-year period.



Strategic Direction

3

To assess directly, and provide advice on, government performance as required by the Legislative Assembly and the public

We believe that citizens want to know whether the programs and services funded by the public are achieving the results that government seeks. Through our direct audits, we provide the citizens of British Columbia with independent assessments that assist them in judging the performance of government. These assessments report on the government's organizational and program performance, its compliance with legislation and related authorities, and its standards of behaviour in the conduct of business.

Over the past year, the Office worked to achieve Strategic Direction 3 by:

- assessing and reporting on the organizational and program performance of government;
- assessing and reporting on the compliance and ethical performance of government;
- reviewing and reporting on the financial controls that apply to government programs and organizations;
- assessing and reporting on the impact of previous audits; and
- investigating areas of special public interest.

Accomplishments

Assessing and Reporting on Organizational and Program Performance

A significant part of our direct reporting work goes toward the assessment of the organizational and program performance of government—a key element of the accountability information that the Legislative Assembly requires. These audits assess whether the programs and services of government are achieving their intended results at a reasonable cost. We also comment on whether the processes in place contribute to a program's effectiveness and efficiency and, where possible, discuss the secondary impacts of government's programs.

The 1996/97 audits we reported to the Legislative Assembly include:

- *Management of Child Care Grants*—Ministry of Women's Equality
- *Vancouver Island Highway Project: Planning and Design*—Ministry of Transportation and Highways
- *Trucking Safety*—Ministry of Transportation and Highways
- *Review of Government Revenue and Expenditure Programs Relating to Alcohol, Tobacco and Gaming*
- *Management of Travel*—Ministry of Finance and Corporate Relations

- *Executive Severance Practices: Government Ministries and Crown Corporations*
- *BC Transit: Managing Operator Productivity*
- *BC Transit: Its Success as a Market-Focused Organization*

The Select Standing Committee on Public Accounts has not yet reported to the Assembly on the last four of these audit reports.

Assessing and Reporting on Compliance and Ethical Performance

In keeping with a comprehensive view of government performance, we examine the government's compliance with legislation and related authorities, and with the standards it has set for the proper conduct of public business. One of our audits in 1996/97 assessed compliance by the Ministry of Health with legislative and central policy requirements for the collection of personal information. The results of the audit are contained in our report, *Privacy—Collection of Personal Information by the Ministry of Health*.

This year we also conducted a study of ethics codes in central government and the major Crown corporations and agencies to identify what ethics codes exist, how awareness of the codes is promoted and encouraged, how compliance is monitored, and what public reporting occurs. The report of this audit, entitled *Ethics Codes in the Public Sector*, was our first examination relating to the proper conduct of today's public servants.

As both of the above reports were issued just recently, they have not yet been considered by the Select Standing Committee on Public Accounts.

Reviewing and Reporting on the Financial Controls of Government

Billions of dollars in public funds flow through the government every year. Therefore, to protect and properly account for these funds, it is imperative that the financial controls used by government be effective and well designed. To determine whether this is the case, our Office carries out reviews in areas of risk or areas where more accountability is needed than can be provided from a financial statement audit. This year, for example, we carried out the following reviews:

- *New Corporate Accounting System: Update*
- *Government Information Systems and the Year 2000 Problem*
- *New Corporate Human Resource Information and Payroll System*
- *Build BC Special Account*

Strategic Direction 3: Reports of the Office, 1996/97

Direct Audit Reports

- *Management of Child Care Grants*, Ministry of Women's Equality, Report #1
- *Vancouver Island Highway Project: Planning and Design*, Ministry of Transportation and Highways, Report #3
- *Trucking Safety*, Ministry of Transportation and Highways, Report #4
- *Review of Government Revenue and Expenditure Programs Relating to Alcohol, Tobacco and Gaming*, Report #5
- *New Corporate Accounting System: Update*, Report #6
- *Government Information Systems and the Year 2000 Problem*, Report #6
- *New Corporate Human Resource Information and Payroll System*, Report #6
- *Build BC Special Account*, Report #6
- *Forest Revenue System*, Report #6
- *Management of Travel*, Ministry of Finance and Corporate Relations, Report #7
- *Executive Severance Practices: Government Ministries and Crown Corporations*, Report #8
- *BC Transit: Managing Operator Productivity*, Report #9
- *BC Transit: Its Success as a Market-Focused Organization*, Report #9
- *Privacy—Collection of Personal Information by the Ministry of Health*, Report #10
- *Ethics Codes in the Public Sector*, Report #10

Special Audit Reports

- *Members' Office Mail: Liberal Caucus January 1997 Province-wide Mailings*

- *Forest Revenue System*

Our findings and recommendations can be found in our *Report on the 1995/96 Public Accounts*.

Assessing the Impact of Our Previous Audits

It takes time to implement the recommendations that arise from many of our audits. Consequently, when management first responds to an audit report, it is often only able to indicate its intention to resolve the matters raised, rather than to describe exactly what it plans to do. Without further information, however, legislators and the public would not be aware of the nature, extent and results of management's remedial actions. Therefore, we regularly review the progress made by government organizations in implementing our recommendations, and report our findings to the Legislative Assembly.

This year, in reviewing the status of recommendations arising from our earlier audits, we found that while action has been taken to implement many of our recommendations, in some areas progress has been slow. More specific information

**Assessing the Impact of Our Work
Follow-up Reports of the Office**

- *Report on the 1995/96 Public Accounts: Updated Responses to Last Year's Internal Control and Other Reviews*, 1996/97 Report #6, Financial Audits
- *Status of Public Accounts Committee Recommendations Relating to Prior Years' Audits*, 1996/97 Report #10, Compliance Audits
- *Follow-up of Performance Audits Issued November 1993 to December 1995*, 1996/97 Report #11, Performance Audits

on the results of our direct audits can be found in the following 1996/97 reports:

- *Report 6: Report on the 1995/96 Public Accounts: Updated Responses to Last Year's Internal Control and Other Reviews—Financial Audits*
- *Report 10: Status of Public Accounts Committee Recommendations Relating to Prior Years' Audits—Compliance Audits*

Report 11, *Follow-up of Performance Audits Issued November 1993 to December 1995* was another report we released. It covers an audit we carried out using the attestation approach rather than the direct auditing approach.

The Select Standing Committee on Public Accounts has discussed four of our prior years' compliance audits (reported in the Office's 1995/96 Report #3) with ministry representatives this past year. It has not yet reviewed the Office's 1996/97 financial, compliance, or performance audit follow-up reports.

Special Reports

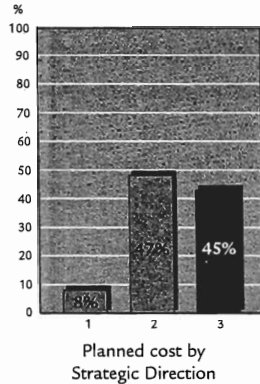
In conjunction with our direct reporting work, we carry out special projects, in the form of audits, studies or reviews, to address topics that are of public interest or are in response to requests and suggestions from MLAs or the public. We are not able to address every issue brought to our attention. Some matters are outside the mandate of our Office or are not specific or significant enough to warrant diverting resources from our regular audit work; others may be referred to another legislative officer, ministry or government organization for investigation. Of those matters we do act on, some are investigated specifically, while others are investigated as part of a larger audit.

In 1996/97 we submitted to the Speaker of the Legislative Assembly, in his capacity as Chair of the Legislative Assembly

Management Committee, the report, *Members' Office Mail: Liberal Caucus January 1997 Province-wide Mailings*.

We expect to issue another special report, the *Estimates Process of Government*, in the coming year.

Performance Measures 1997/98



Government is large and complex, making it difficult for the public and legislators to judge fairly the performance of government as a whole. The Office provides direct evaluation of government performance, where government itself has not reported on that performance. Therefore, our key targets are to:

- audit significant aspects of government's performance on a cyclical basis over a reasonable time; and
- have the advice we provide with respect to improving accountability information (contained in our public reports) accepted over a two-year period.



Strategic Direction

4

*To ensure
the Office of
the Auditor
General is an
effective, well-
performing
organization*

We are working to ensure that our organization is clear about its role and future direction, is focused on results, and regularly assesses and learns from its past performance. We are doing this not only to ensure that we are achieving the public and professional standards of conduct expected of us, but also to ensure that, as an effective, well-performing organization, we can better serve the interests of the public and the Legislative Assembly.

Over the past year, the Office worked to achieve Strategic Direction 4 by:

- communicating the short- and long-term direction of the Office;
- protecting key assets of the Office;
- enhancing strategic information management;
- providing staff with professional development;
- complying with standards of conduct; and
- managing our financial performance in accordance with sound financial controls.

Accomplishments

Leadership and Direction

Different methods have been employed to communicate with staff about the shift in the way we do business to one that is more directly focused on results. The Office has issued its strategic plan and is continuing to develop and refine its operational plan and performance measures. In addition to this, we are moving to an integrated system for collecting and analyzing our financial and project management information. Such a system will allow us to better capture the timeliness and cost of each project and will help focus our work on the results we intend to achieve.

Protection of Key Assets

In 1996/97, our interest in protecting key assets in the Office focused on our information and our staff.

Information—We have taken steps to ensure that the information we collect is protected both physically and electronically. In addition to our enhanced office security system, network security has been increased with the addition of a firewall and increased monitoring of communications. The Office is also developing a business continuation plan that will help us quickly resume operations in the event of an emergency or disaster.

Personnel—This year was a particularly demanding one for the staff of the Office. In addition to a heavy workload, staff were required to carry out audits in several organizations not previously audited by this Office. As usual, staff made an impressive effort to respond to the requirements of the Legislative Assembly. While their commitment and sacrifice of personal time has been outstanding, structural overtime—unpaid overtime that becomes accepted and established practice over time—is of real concern. The ability of an organization to sustain, let alone improve, its performance in the future is highly dependent on a workforce that is healthy and not overtaxed by work demands. We recognize that this is an issue not just for this Office, but for the public sector across British Columbia. We will review the situation again this year to determine what steps can be taken.

Enhancing Our Information Systems

Over the past year, we have enhanced the management of information to improve access to operational and administrative information. One way we did this was to develop an Information Network, a system that brings together internal office information, client information and research areas on the Internet. This has helped improve staff's ability to access up-to-date information resources efficiently. The Office's Financial Information System was also modified to be an on-line system where the information is readily available and current. This has substantially reduced the need for much paper-based information.

Development of Staff

The Office's objective is to provide each staff member with sufficient professional development to meet individual training and development needs as well as professional requirements. Many of our staff participate in a "Six Year Professional Development Plan," which includes a comprehensive cycle of core training. Other staff are part of an annual training plan that links individual performance and required core competencies. A Professional Development Committee has responsibility for planning and reviewing professional development within the Office, and for providing leadership and guidance in the development of new programs and courses.

Over the past year, staff in the Office received an average of 33 hours of training and development through courses, seminars, conferences and other similar means.

The Office also assists staff in pursuing approved external study programs. A number of staff are pursuing additional post-graduate qualifications in a variety of approved programs.

Compliance with Ethical Behaviour

Serving the public in a way that maintains the public's trust is deeply ingrained in the culture of the Office. Staff carry out their duties with regard to high standards of individual behaviour and established codes of conduct. In addition to the government's *Standards of Conduct for Public Service Employees*, we follow the Office's standards of practice and policies, which cover matters such as confidentiality, information security, independence, political participation and conflict of interest.

Our Financial Performance

Each year we are provided with an appropriation from the Legislative Assembly to carry out our work. In doing so, we ensure that our financial affairs are managed in accordance with sound financial controls.

Appropriations—Our appropriation from the Legislative Assembly for 1996/97 was \$7.392 million, but was later, at the request of government, voluntarily reduced by the Office by 3% (\$221,000), in support of the government's deficit reduction program across the public sector. With this reduction, our actual appropriation for 1996/97 was \$529,000 lower than our 1995/96 allotment of \$7.7 million. Our appropriation for 1997/98 has been reduced by a further 4% to \$6.875 million.

To address the shortfall in our funding, we reduced expenditures in areas such as the production costs of reports and the contracting for external professional services. In addition, staff devoted considerable hours of overtime without compensation.

Charging for Audit and Related Services—Auditing arrangements were recently made to ensure consistency across government in the charging of fees for financial attestation audits. Before this, some organizations (such as the universities) were audited free of charge by the Auditor General, while others (such as the colleges), were required to pay private sector auditors for similar work. Now all government organizations, except central government, are charged fees at the market rate, whether the services are supplied by the Auditor General or by private sector auditors. The fees the Office recovered this past year have partially offset the funding reductions sustained through our appropriation.

Full Costing—We are in the process of adapting and integrating our information systems, in part to reflect recent changes to the government's accounting system. As well, our process for project costing is being refined so that we will have greater confidence that project costs are accurate and complete.

Performance Measures 1997/98

We follow a full costing approach to our work, allocating all expenditures to our direct audit and assurance work. Therefore, the costs associated with Strategic Direction 4 are incorporated in the costs for Strategic Directions 1 to 3.

Planned cost,
Strategic Direction 4

A key element of an organization's capacity to sustain or improve on its results—particularly with decreasing resources and an increasing workload—is its staff. For this reason, we are working to improve our information about:

- staff turnover; and
- work satisfaction.

Other measures of our performance include:

- pursuing a rigorous quality assurance program for our audits;
- providing cost-effective and efficient access to the information we require;
- providing staff with the training they require within one year of a needs assessment; and
- complying with the Office and government codes of conduct.

In addition, we want to streamline our work processes for greater efficiencies and effectiveness. Therefore, we will:

- complete our work within the resource budgets set at the planning stage and within the planned timeframe;
- issue management letters within six weeks of completing an audit;
- reduce, by 10% from last year, the overall number of hours required to complete our attestation audits; and
- follow up on our recommendations within two years after the original audit.

Throughout each audit, we will continue to conduct our work in accordance with professional auditing standards, using sound audit methods and techniques.



appendices

appendix a

Financial Statements, 1996/97

These audited financial statements of the Office of the Auditor General of British Columbia were tabled in the Legislative Assembly by the Speaker, on July 16, 1997.



OFFICE OF THE
Auditor General
of British Columbia

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

YEAR ENDED MARCH 31, 1997

The accompanying Statement of Net Expenditures of the Office of the Auditor General of British Columbia is the responsibility of the Office's management, and has been prepared in accordance with accounting principles generally accepted for public sector organizations in Canada. The financial statement has been reviewed and approved by the Management Board of the Office, comprising the Auditor General and the three Assistant Auditors General.

Management maintains systems of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, staff training programs, and appropriate delegation of authority and segregation of responsibilities within the organization. The integrity and objectivity of Office staff are guided by the Public Service Act standards of conduct and related professionalism policies of the Office, and the codes of conduct of the professional institutes and associations of which most of the staff are members.

The independent auditors, Green, Horwood, Munro & Tuckey, were appointed by Treasury Board, pursuant to section 19 of the Auditor General Act, to audit the accounts of the Office of the Auditor General for the fiscal year ended March 31, 1997, and to report the results of the audit to the Speaker of the Legislative Assembly. The auditors examined the accounts of the Office and have reported on the accompanying financial statement without any reservation of opinion.

George L. Morfitt, FCA
Auditor General

Michael J. Maglio
Senior Financial Officer

May 23, 1997

GREEN, HORWOOD, MUNRO & TUCKEY

CHARTERED ACCOUNTANTS

CLIFFORD E. HORWOOD INC.
RICHARD T. TUCKEY INC.
GEORGE A. V. FROBEN INC.
GEORGE WONG INC.

GORDON GREEN (DEC'D 1994)
DOUG MUNRO (RETIRED 1995)

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E-MAIL: ghmt@ghmt.bc.ca

May 23, 1997

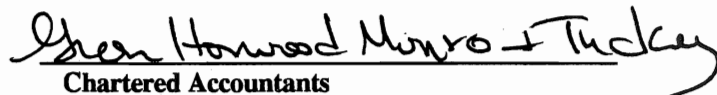
AUDITORS' REPORT

To the Speaker,
The Legislative Assembly
Province of British Columbia

In accordance with the provisions of Section 19(2) of the Auditor General Act, we have audited the Statement of Net Expenditures of the Office of the Auditor General of British Columbia for the year ended March 31, 1997. This financial statement is the responsibility of management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, this financial statement presents fairly, in all material respects, the net expenditures of the Office of the Auditor General of British Columbia for the year ended March 31, 1997 in accordance with accounting principles generally accepted for public sector organizations in Canada.


Chartered Accountants



OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: (250) 387-6803
Facsimile: (250) 387-1230

STATEMENT OF NET EXPENDITURES

YEAR ENDED MARCH 31, 1997

	1997	1996
TOTAL OF VOTE 2 FOR THE YEAR (see Note 1)	<u>\$7,392,000</u>	<u>\$7,700,000</u>
EXPENDITURES		
Salaries	4,779,750	4,862,379
Supplementary salary costs	28,448	28,355
Employee benefits	<u>1,008,149</u>	<u>1,022,194</u>
Salary and benefit costs	5,816,347	5,912,928
Travel	248,591	317,334
Professional and special services	234,787	189,340
Data processing	177,904	244,649
Office	208,824	168,857
Public reports	69,538	88,852
Building occupancy charges	552,360	541,790
Data and word processing systems	192,171	148,128
Office furniture and equipment	9,075	27,303
Grants	<u>57,000</u>	<u>57,300</u>
TOTAL EXPENDITURES BEFORE RECOVERIES	7,566,597	7,696,481
Less: Recoveries	<u>(494,145)</u>	<u>(22,454)</u>
NET EXPENDITURES	<u>\$7,072,452</u>	<u>\$7,674,027</u>

The accompanying notes are an integral part of this financial statement.



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FINANCIAL STATEMENT NOTES

YEAR ENDED MARCH 31, 1997

1. Significant Accounting Policies

a) Reporting Entity

The financial statement includes the results of transactions accounted for in Vote 2 of the government's 1996/97 Estimates. Vote 2 provides for the funding of Office expenditures and the recovery of costs reimbursable to the Office. Vote 2 accounts for all the financial operating activities of the Office.

In November, 1996 the Chair of Treasury Board requested that the Office reduce its expenditures for the fiscal year by \$221,000, or 3% of the amount approved in the 1996/97 estimates. The Office voluntarily complied with this request.

b) Basis of Accounting

The Office follows the accounting principles generally accepted for public sector organizations in Canada.

2. Physical Assets

Physical assets are recorded as expenditure in the year they are received. Acquisitions during the past two years were:

	<u>1997</u>	<u>1996</u>
Office furniture and equipment	\$ 9,075	\$ 27,303
Data and word processing systems	\$192,171	\$148,128

3. Commitments

The Office has a leasehold commitment with the British Columbia Buildings Corporation for building occupancy costs. This lease has a 10 year term to October 2004. Minimum annual payments during the term of the lease are approximately \$530,000.

appendix b

Publications about Our Office

- *Corporate Plan, 1996/97 to 2000/01*
- *Auditing for Better Public Sector Accountability and Performance*
- *Our Commitment to Service*
- *A Guide to the Appointment of Auditors of Government Organizations*
- *Auditing for Better Public Sector Accountability and Performance—A Description of Our Work*



appendix c

Committees and Professional Associations of the Office

Committees

Executive Council
Management Board
Health and Safety Committee
Information Technology Steering Committee
Professional Development Committee
Quality Assurance Committee
Student Affairs Committee

Professional Associations

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


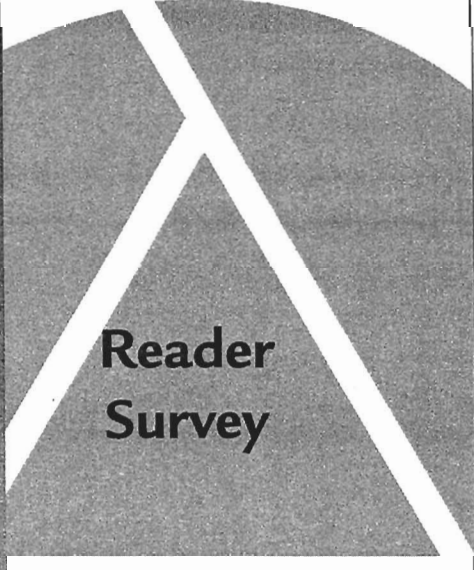
- Canadian Evaluation Society
- CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation)
- Certified General Accountants Association
- Financial Management Institute of Canada
- Human Resource Management Association
- Institute of Certified Management Consultants
- Institute of Chartered Accountants
- Institute of Internal Auditors
- Institute of Public Administration of Canada
- Law Society of British Columbia
- Society of Certified Management Accountants



appendix d

Reader Survey

In 1996/97, we surveyed our readers to find out how we might make our reports more useful to them, and to determine the most suitable methods of distributing our reports. A similar reader survey is set out below. Should you wish, you may copy and complete the survey, commenting on our 1997 Annual Report. We appreciate your opinions and the feedback that you provide in helping us to improve our reports.

 <p>OFFICE OF THE Auditor General of British Columbia</p>  <p>Reader Survey</p>	<p>Dear Reader:</p> <p>I trust you have found this report to the Legislature informative and interesting.</p> <p>We are always looking for ways to make our reports more useful to our readers. We would also like to determine the most suitable method(s) of distributing our reports.</p> <p>You can help us by taking just a few minutes to fill out this survey. Your answers will be kept confidential.</p> <p>We would appreciate your response as your opinions are an important contribution to this process. Your comments, in combination with the views of our other readers, will be reviewed and, wherever possible, implemented to ensure our reports better meet your needs.</p> <p><i>Thank you</i> very much.</p> <p>George L. Morfitt, FCA Auditor General</p>
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I. Purpose for Receiving Report

1. What was your primary purpose for obtaining the report?

Please check one only.

- assessing government performance
- developing policy
- managing program(s)
- conducting research
- reporting in the media
- archiving for library
- general interest
- other (please specify)

II. Readability

2. To what extent do you agree with the following statements regarding the format and content of the report?

Please circle the number of your answer.

Format

	Strongly Agree	Agree	Neither Agree/Disagree	Disagree	Strongly Disagree
Overall Report					
Information was easy to find	5	4	3	2	1
The design was appealing	5	4	3	2	1
The layout was appealing	5	4	3	2	1

II. Readability—continued

If you did not read a section of the report, please check the box and go to the next section of the survey. If you read a section, please circle the most appropriate number for your answer.

Content

	Strongly Agree	Agree	Neither Agree/Disagree	Disagree	Strongly Disagree
The Year's Highlights					
DID NOT READ <input type="checkbox"/>					
I found this section:					
Informative	5	4	3	2	1
Understandable	5	4	3	2	1
Objective in its presentation of the issues	5	4	3	2	1
Logically structured	5	4	3	2	1
Our Corporate Profile					
DID NOT READ <input type="checkbox"/>					
I found this section:					
Informative	5	4	3	2	1
Understandable	5	4	3	2	1
Objective in its presentation of the issues	5	4	3	2	1
Logically structured	5	4	3	2	1
Our Planning Process					
DID NOT READ <input type="checkbox"/>					
I found this section:					
Informative	5	4	3	2	1
Understandable	5	4	3	2	1
Objective in its presentation of the issues	5	4	3	2	1
Logically structured	5	4	3	2	1

II. Readability—continued

If you did not read a section of the report, please check the box and go to the next section of the survey. If you read a section, please circle the most appropriate number for your answer.

Content

	Strongly Agree	Agree	Neither Agree/Disagree	Disagree	Strongly Disagree
The Year In Review					
DID NOT READ <input type="checkbox"/>					
I found this section:					
Informative	5	4	3	2	1
Understandable	5	4	3	2	1
Objective in its presentation of the issues	5	4	3	2	1
Logically structured	5	4	3	2	1

If you disagreed or strongly disagreed with any statements in Question 2, please explain why.

III. Delivery

What means of distribution format is most suited to your needs?

Please check the appropriate box or boxes.

Via Mail

- Full report
 Brochure of Highlights
 News Release

Audio

- Full Report
 Highlights

Via Internet (Hypertext)

- Full Report
 Brochure of Highlights
 News Release
 Slide and Text Presentation of Highlights

Thank you for taking the time to complete this survey. Please mail your completed questionnaire to Office of the Auditor General, 8 Bastion Square, Victoria, B.C. V8V 1X4. If you have any questions or comments about the survey, please contact Jane McCannell at (250) 387-6803 or via e-mail at jmccannell@oag.bc.ca.



appendix e

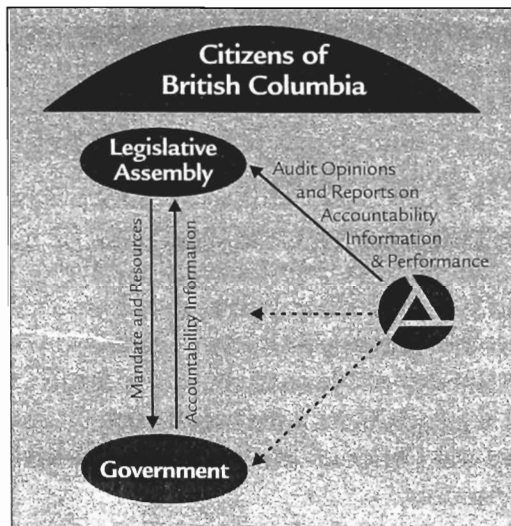
A Guide to the Appointment of Auditors of Public Sector Organizations

The Office of the Auditor General provides a critical link in the chain of public accountability. The Office serves the Legislative Assembly and the people of British Columbia by providing independent assessments and advice with respect to government accountability and performance.

To serve legislators and the public effectively, the Auditor General must be able to carry out, or have carried out, such audit work as the Auditor General considers necessary for the organizations included in the government reporting entity. In May 1995, following a thorough review of the external auditing arrangements that then existed, the Minister of Finance and Corporate Relations and the Auditor General entered into a Memorandum of Understanding (Memorandum), the provisions of which are designed to provide a rational audit process that allows the Auditor General to fulfill the duties imposed by the *Auditor General Act*.

Three issues outlined in the Memorandum relate to the Auditor General's relationship with public sector organizations and private sector auditors:

- the Auditor General's involvement in the appointment of auditors;
- the allocation of audits between the Auditor General and private sector auditors;
- the charging of fees by the Auditor General.



The guidelines for implementing the Memorandum cover the range of audits included in pronouncements of the Canadian Institute of Chartered Accountants relating to the public sector—financial statement, value-for-money, and compliance-with-authorities. Currently, however, only financial statement audits are required by legislation in British Columbia. The information in this brochure, therefore, describes only the provisions of the Memorandum relating to financial statement audits.

The Appointment of Auditors

Auditors of government organizations may be appointed in a variety of ways—by the Act establishing the organization, by its Board, by an Order-in-Council, or by the Minister of Finance and Corporate Relations.

The Memorandum applies to:

- auditor appointments requiring approval by the Minister of Finance and Corporate Relations, or
- auditor appointments made by an Order-in-Council.

Ministerial Approvals/Appointments

The Minister of Finance and Corporate Relations may approve an auditor under Section 6.1 of the *Financial Administration Act* or may appoint an auditor by the Act establishing an organization. In the Memorandum, the Minister has agreed that the auditor selection process for these organizations will reflect the judgments of the Auditor General with respect to:

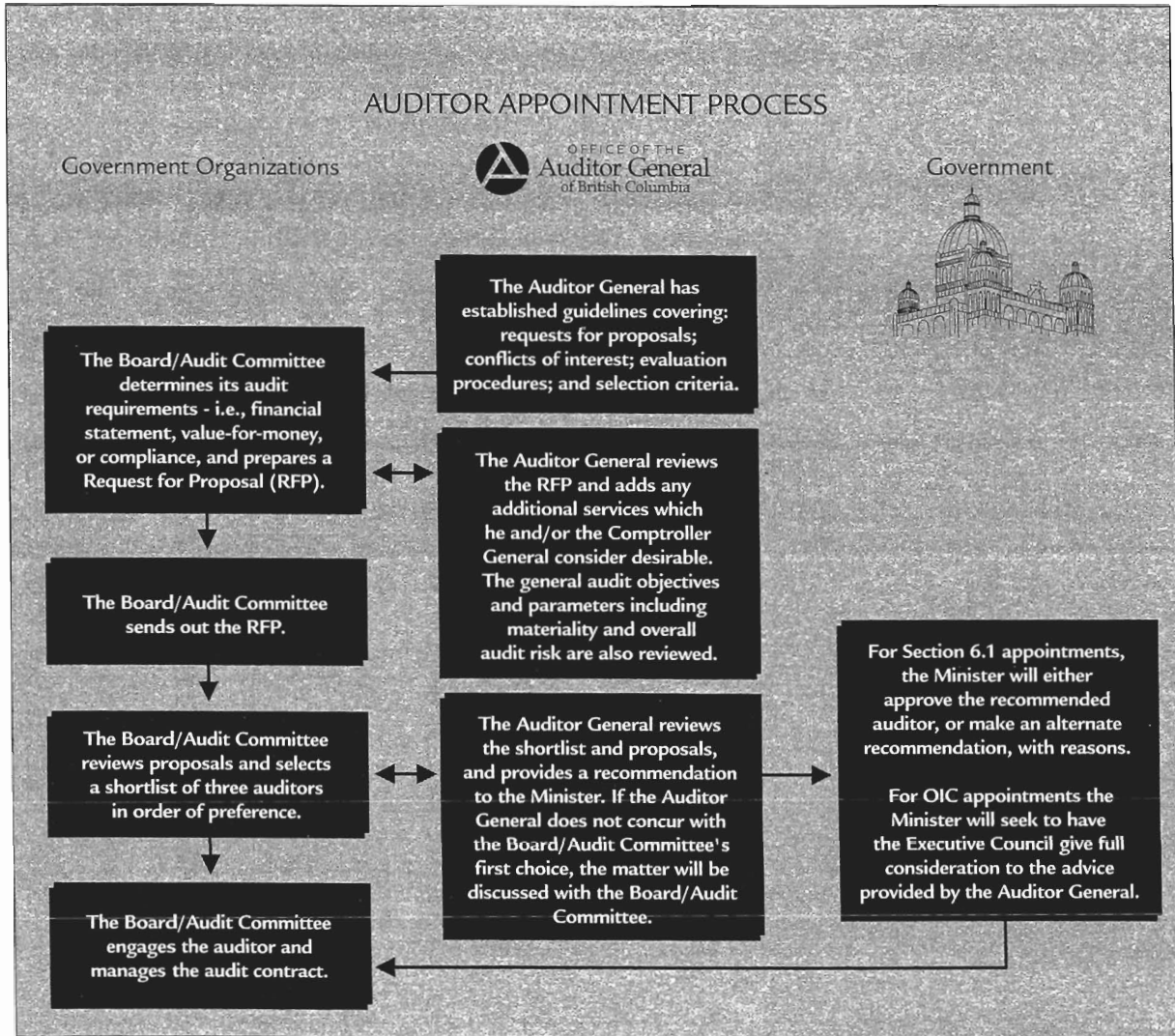
- the persons appointed as auditors,
- the nature and extent of the audit work undertaken, and
- the standards adhered to in conducting the audit.

The diagram on the next page shows the process followed for government organizations engaging private sector auditors.

Order-in-Council Appointments

According to the terms of the Memorandum, where the Lieutenant Governor appoints the auditor by an Order-in-Council (which usually is prepared by the Board of the organization) the Minister of Finance and Corporate Relations will seek to have the Executive Council give full consideration to the advice provided by the Auditor General.

Changes to the audit appointment process resulting from the Memorandum will not affect current contractual arrangements—changes will be made over a period of five years as contracts expire. An implementation plan will be approved annually by the Minister of Finance and Corporate Relations. The Boards of all organizations affected by the changes will be contacted by the Office of the Auditor General to review the appointment process.



The Allocation of Audits

The Memorandum together with the supporting rationale provides the basis for determining which audits will be undertaken by the Auditor General's staff directly, and which audits will be conducted by private sector auditors acting either as agents of the Auditor General or as direct appointees of the Boards.

The Auditor General is required to report on the financial statements of central government, and this audit will continue to be conducted by the Auditor General's staff.

The Auditor General is also required to provide the Legislative Assembly with an auditor's report on the government's summary financial statements. Consequently, the Auditor General's staff must maintain a knowledge and

expertise with respect to all government entities. In support of this, the Auditor General will select a few organizations outside of central government to audit directly on a cyclical basis. Typically, the Office will audit these organizations for a three to five-year period. The audits of all other government organizations will be performed by private sector auditors acting either as agents of the Auditor General or directly for the Boards.

Fees

All government organizations, except central government, pay audit fees. The fees charged by the Auditor General are consistent with those charged by the private sector. This arrangement leads to government-wide consistency in the charging of fees and recording of such operating costs, whether the services are supplied by the Auditor General or by private sector auditors.



appendix f

Glossary Performance

Three key elements make up government performance:

- (1) *Organizational and Program Performance*—This refers to government's responsibility for achieving what it intends to achieve, at a reasonable cost. The programs and services it delivers should be relevant, effective, efficient and economical.
- (2) *Financial Performance*—This refers to government's responsibility for achieving its financial objectives and managing its affairs according to sound financial controls.
- (3) *Compliance and Ethical Performance*—This refers to government's responsibility for ensuring compliance with legislation and related authorities governing its activities, and meeting the standards established for the proper conduct of public business.

Public Accounts

The Public Accounts are the documents by which the government accounts for its financial activities. They contain the financial statements and other information that the government is required to include in the publication. The Public Accounts for the 1995/96 fiscal year were published in three volumes in April 1997:

- Volume 1 (Section A), titled *Annual Report*, includes the audited Summary Financial Statements of the Province, providing information on the financial affairs and resources for which the government is responsible;
- Volume 2 (Sections B to D), titled *Financial Statements and Schedules of the Consolidated Revenue Fund*, is intended to serve as the government's accountability report to the legislature on revenues raised and expenditures made as authorized by the *Supply Act* and other statutory spending authorities; and
- Volume 3 (Sections E to G), titled *Other Government Financial Statements and Information*, contains the summary of audited financial statements of government organizations and enterprises, the latest audited financial statements of certain trust funds administered by the government, and the

summary of financial statements of public bodies to which the *Financial Information Act* applies.

Report on the Public Accounts

This report contains comments and observations arising during the Auditor General's audit of the financial statements of the Province for a fiscal year. It also relates to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.



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Victoria 1997



