2.1 Accountability and the Role of the Legislative Auditor

The way Government spends public money is very important to Newfoundlanders and Labradorians.

Control of the public purse is carried out on behalf of the people by their elected representatives, the Members of House of Assembly. While it is up to Government to draft budgets and spending estimates, it cannot collect or spend taxpayers' money without the approval of the House of Assembly. After Government spends the money entrusted to it, there is an obligation to report back to the House of Assembly on how the money was used. This, the obligation to answer for actions taken, is the basis of the accountability relationship that exists between Government and the House of Assembly.

As the governing body in this accountability relationship, the House of Assembly is responsible for (1) overseeing the activities of Government and (2) holding Government accountable for its handling of public money. To assist this process, the Government provides information about how it used the public funds entrusted to it.

But what assurance do Members of the House of Assembly have that this information is appropriate, credible and complete? How can Members know that the information they receive accurately reflects the results of the activities of Government?

The House of Assembly in this Province, as in Legislative Assemblies in other jurisdictions in Canada, uses the services of an Auditor General to assist it in carrying out its oversight responsibilities. Historically, the Assemblies have understood well the need for an independent Legislative Auditor and recognized the position's unique contributions to the public accountability process.

From the view of legislators, the value of Legislative Auditors has not simply been in their technical expertise, it has also been in their ability to conduct audits that may not please those being examined, and to report their findings publicly. This has made their roles indispensable. They have subjected the operations of the public sector as a whole to regular, independent examinations, acting first and foremost in the public interest, as acknowledged champions of open and transparent government.

Defining the unique and vital role of Legislative Auditors in the public accountability process revolves around four key points: their independence; their mandate; their reporting obligations; and their expertise in public sector matters.

2.2 Independence: The Cornerstone of Legislative Auditing

Independence, the state of being impartial and free from bias and conflicts of interest, is the cornerstone of legislative auditing. Anything that impedes an honest, straightforward and sincere approach to the performance of an audit will reduce public confidence.

In Canada, Legislative Auditors enjoy the confidence of legislators and the public, and their independence is unquestioned. The fact that this independence is largely backed by legislation instills public confidence in the process. For instance, were a legislative audit to reveal significant matters critical to government, those matters would, by law, have to be made known to legislators and the public.

The legislation under which the Office of the Auditor General in Newfoundland and Labrador operates is the *Auditor General Act.* This legislation was assented to on 31 October 1991. The full text of the *Auditor General Act* is presented as Appendix I to this Report.

Professional Independence

To be independent in appearance as well as in fact, Legislative Auditors have been granted the freedom to act without undue direction or interference from government.

In practice, and subject to legislation and professional standards, this means that Legislative Auditors are able to determine when and how audits will be conducted and who will conduct them. It is they, for the most part, who have the licence to set the audit program for their jurisdictions, choosing the bodies to be audited and determining the nature and scope of audits to be conducted.

From a public accountability perspective, this degree of independence is crucial. Only in this way can there be assurance that all matters of importance are subject to thorough examination, no matter how the results might reflect on those being audited.

Personal Independence

Bolstering the independence of Legislative Auditors even further, legislators, not government, generally make decisions pertaining to the auditors' appointment, tenure, reappointment, remuneration and resourcing. Such decisions are overseen and approved by each Legislative Assembly as a whole.

In this Province, the House of Assembly has assured this independence by appointing the Auditor General for a 10 year non-renewable term as an Officer of the House of Assembly, with removal permitted only for cause or incapacity. As well, the *Auditor General Act* provides the Auditor General with immunity from legal action.

2.3 A Comprehensive Legislative Mandate

Being an Officer of the House of Assembly means being, above all, responsive to the Assembly's interests and wishes. This position as the Assemblies' Officer, combined with the responsibility to audit the whole of Government, is what sets Legislative Auditors apart from other audit professionals working in the government sector.

Whole of Government Mandate

The Auditor General is the only official channel through which the House of Assembly is regularly and consistently kept informed of Governments stewardship of public funds.

The House of Assembly has granted the Auditor General a "whole-of government" mandate, covering organizations as diverse as Government departments, agencies, commissions, boards and Crown corporations. In this way, the House of Assembly is assured of receiving the Auditor General's conclusions and recommendations for the entire Government entity, regardless of whether or not the executive branch of Government has hired a private sector auditor to audit a specific organization or program of Government.

Breadth of Audit Coverage

Legislative Auditors in Canada meet their auditing objectives by examining a very broad range of issues. These issues are not necessarily the same ones encountered in the private sector, mainly because of the basic differences between organizations in the private sector and those in government. For example, because government organizations have public policy objectives, the results of their operations cannot be assessed based solely on their financial statements.

Recognizing this distinction, Legislative Assemblies have broadened the scope of the work that Legislative Auditors may do to obtain the information they need to hold government accountable. This information focuses on the financial, operational and compliance with-authorities performance of government organizations.

2.4 Reporting to the Legislative Assemblies

As an independent Officer, the Auditor General reports directly to the House of Assembly, at least annually, on anything the Auditor General feels should be brought to the Members' attention. The reports become a matter of public record and cover a wide range of issues of interest to legislators and the public, including compliance, evaluation of accountability relationships, management practices and control systems, and review of program results compared to established criteria. Having one auditor reporting to the House of Assembly is an efficient and effective means of ensuring that Members receive the information they need to hold Government accountable. The Auditor General also has direct access to the Public Accounts Committee. This provides a formal means of discussing reported audit findings with Members.

2.5 Expertise in Public Sector Matters

As a result of working exclusively in the public sector, Legislative Auditors have acquired extensive corporate and operational knowledge of government. They are specialists in the field of public sector auditing and their credibility with legislators (for example, on topics such as emerging public sector trends and accountability issues) is thus well established. Given their extensive interaction with legislators, Legislative Auditors are in the notable position of being aware of, and understanding legislators' concerns.

Furthermore, having a whole-of-government mandate has allowed Legislative Auditors to speak to legislators about broad government matters and to better identify those accountability and performance issues that have the greatest impact on government. As a consequence, Legislative Auditors are better able to promote consistency of accounting across government organizations, and to make informed decisions about the selection, conduct and reporting of audits.

2.6 To Whom are the Legislative Auditors Accountable?

Questions are raised from time to time about what the appropriate involvement and role of a Legislative Auditor should be and to whom Legislative Auditors are accountable?

The fact is, Legislative Auditors fulfill a distinctive position in the accountability regime of governments. They have been able to serve the accountability relationship between government and the Legislative Assembly because they have sufficient independence from government to be credible, they have mandates that are set out in legislation, and they

have the forums to report directly to their Assembly. Moreover, they have acquired the necessary expertise to carry out their role effectively.

Such independence as that bestowed on Legislative Auditors requires that they themselves be accountable to their respective Legislative Assemblies. This means that Legislative Auditors are obligated to report directly to the Assembly on how they carry out their responsibilities and how the services they are providing add value to the accountability process. This Report is one of the means by which this accountability reporting is provided. The resources available to the Auditor General are determined through discussion with the Commission of Internal Economy. This Commission is a Committee of the House of Assembly, over which the Speaker of the House presides, and is responsible for all matters of financial and administrative policy affecting the House of Assembly, its offices (including the Office of the Auditor General) and its staff. The *Auditor General Act* requires that estimates of the sums required to be provided by the Legislature for the payment of salaries and other expenses of the Office of the Auditor General be submitted to the Commission for its approval. As well, each year, the financial statements for the Office are audited by an auditor appointed by the Commission, with the audited statements being tabled in the House of Assembly.

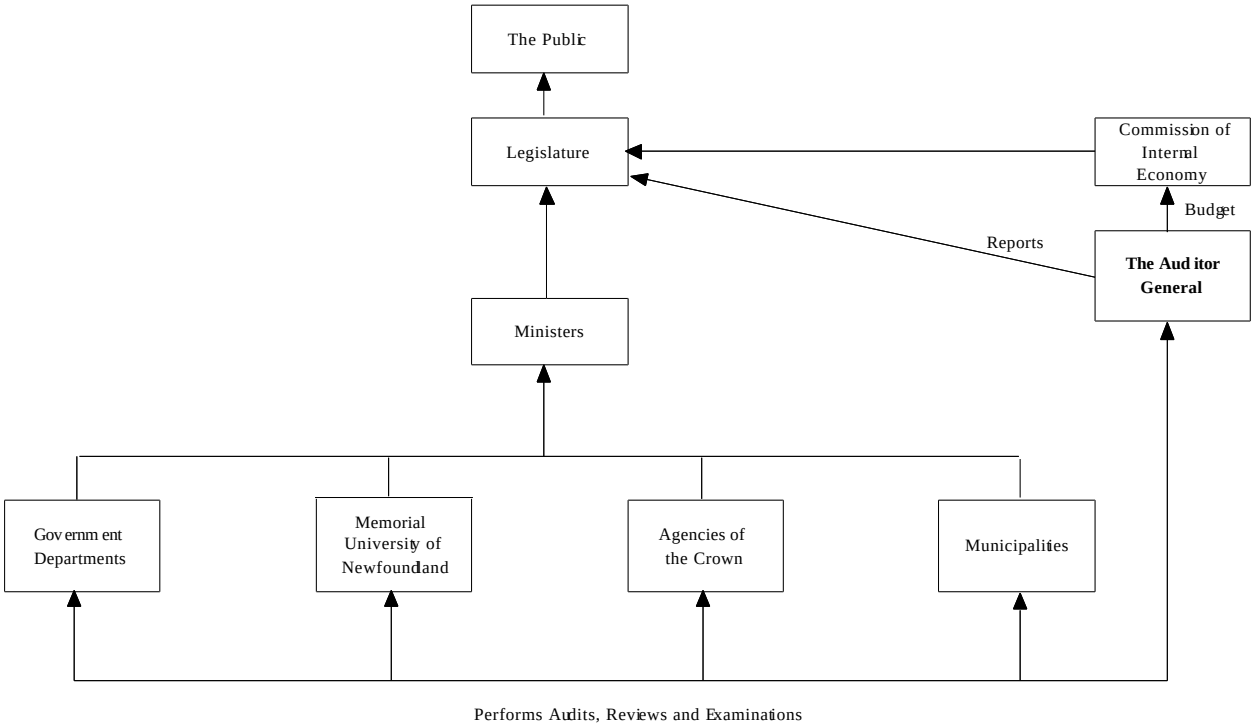
2.7 The Office of the Auditor General in Newfoundland and Labrador

The Office of the Auditor General in Newfoundland and Labrador is the independent Legislative Auditor of Government, its departments, all agencies of the Crown and Memorial University of Newfoundland. Implicit in the *Auditor General Act* is the requirement for the Auditor General to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance.

Public sector accountability is based on the premise that governing bodies are best served by knowing whether the responsibilities conferred on government departments and agencies are satisfactorily performed and intended results are achieved. The Auditor General brings an independent audit process to the manner in which these conferred responsibilities are discharged in the public sector and reports directly to the House of Assembly on the results of these audits. The role of the Auditor General complements the accountability relationship which exists between Government, its departments, agencies of the Crown, Memorial University of Newfoundland, municipalities, and the House of Assembly, as illustrated in Figure 1.

Figure 1

Office of the Auditor General Accountability Relationship



In addition to allocating our resources to perform the above audits, reviews, and examinations, we may also receive requests to complete special assignments. Under the *Auditor General Act*, these special assignments may be requested by either, the House of Assembly, the Public Accounts Committee or the Lieutenant-Governor in Council. In these special assignments, the Auditor General reports to whomever makes the request.

The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown and Crown controlled corporations.

The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion on these financial statements.

A list of Departmental audits performed by our Office is included as Appendix II. A list of agencies of the Crown and other entities whose financial statement audits are performed by our Office is included as Appendix III. A list of agencies of the Crown and other entities whose financial statement audits are performed by private sector auditors is included as Appendix IV.

Our Mandate

Section 12 of the *Auditor General Act* requires the Auditor General to report, at least annually, on:

- the work of the Office;
- whether, in carrying out the work of the Office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements;
- audits, examinations and inquiries performed under the *Act*; and
- the results of the examination of the accounts of the Province calling attention to anything the Auditor General considers significant relating to:
    - collections of public money;
    - disbursements of public money;
    - instances where accounts have not been faithfully and properly kept;
    - instances where assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
    - instances where accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
    - any factors or circumstances relating to an expenditure of public money which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

Our Mandate