OFFICE OF THE AUDITOR GENERAL



Report to the House of Assembly on the Business Plan

For the Year Ended March 31, 2014

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CHAPTER 1
INTRODUCTION

AUDITOR GENERAL
of Newfoundland and Labrador

September 30, 2014

The Honourable Wade Verge, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the *House of Assembly Accountability, Integrity and Administration Act* which prescribes the application of the *Transparency and Accountability Act*, I have the honour to submit herewith, for transmission to the House of Assembly, my Report on the Business Plan of the Office of the Auditor General for the year ended March 31, 2014.

As an Officer of the House of Assembly, the Auditor General provides an independent, unbiased and informed opinion on matters that are considered to be significant to the Members of the House of Assembly. The Office is committed to promoting accountability and encouraging positive change in the stewardship, management and use of public resources.

This Report to the House of Assembly is for the year ended March 31, 2014, and is the third Report related to the Office's *Business Plan for the Three Fiscal Years 2011-12, 2012-13 and 2013-14*. That Plan was presented to the Speaker of the House of Assembly on June 14, 2011. This report is designed to provide all Members of the House of Assembly with a full overview of the operations of the Office during 2013-14: our plan, our budget and the results achieved. This report also includes an update on the overall progress related to the Office's *Business Plan for the Three Fiscal Years 2011-12, 2012-13 and 2013-14*. I am accountable for the actual results reported.

Figure 1 provides details on the $3,194,249 million in gross expenditures (excluding statutory salaries of $178,029) incurred by the Office for the year ended March 31, 2014.

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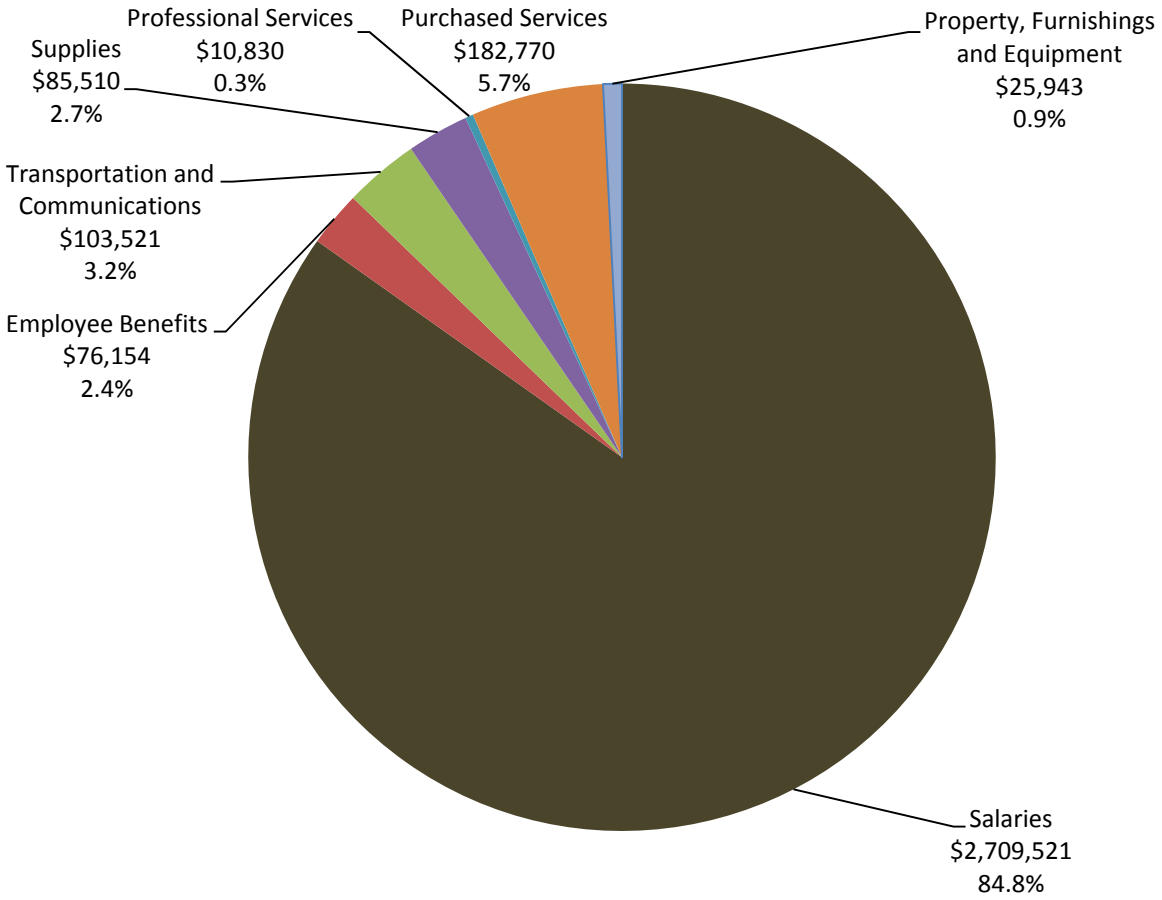
Figure 1

Gross Expenditures of the Office of the Auditor General
For the Fiscal Year Ended March 31, 2014



Total Expenditure: $3,194,249

Approximately 91% of the Office's gross expenditures relates to spending on salaries and office accommodations. The balance of expenditure relates to the normal functioning of the Office and includes staff training and professional development and travel.

The work of the Office is distributed along three broad categories, financial statement audits of the Province and Crown Agencies, Performance Audits and Special Projects. Table 1 provides the budgeted and actual hours by the type of work carried out during the year. No Special Projects were undertaken during 2013. The information is provided on a calendar year basis to coincide with our audit cycle.

Table 1

Distribution of Audit Work
For the Calendar Year Ended December 31, 2013

	BUDGET		ACTUAL	
	Hours	**%**	**Hours**	**%**
Financial Statement Audit of the Province	9,848	21.3	11,630	25.0
Financial Statement Audits of Crown Agencies	12,073	26.1	15,335	33.0
Performance Audits	24,324	52.6	19,524	42.0
TOTAL	46,245	100.0	46,489	100.0

The following are highlights of our work during the past year:

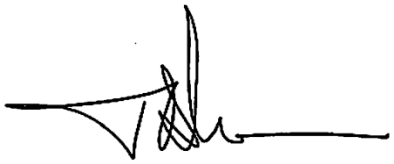
- A report to the House of Assembly on *Reviews of Departments and Crown Agencies* was submitted to the Speaker of the House of Assembly and released publicly on January 23, 2014. That report included 8 separate performance audits undertaken by the Office during the year.

- The Office performed the financial statement audit and issued Independent Auditor's Reports on 26 Crown agencies. Issues identified during these audits were reported to management for their consideration. The Office also reviewed available financial statements and management letters for 41 Crown agencies which were audited by private sector auditors during the year.

- The Office completed the audit of the Public Accounts of the Province for the year ended March 31, 2013. A report to the House of Assembly on the *Audit of the Financial Statements of the Province of Newfoundland and Labrador* was submitted to the Speaker of the House of Assembly on January 17, 2014. That Report provided information on key indicators of the state of Government's finances and highlighted a number of specific areas including: the financial condition of the Province; retirement benefits; and environmental liabilities.

A professional team makes the work of the Office possible. I thank them for their dedication and continued commitment to high quality standards in their work.

Respectfully submitted,



TERRY PADDON, CA
Auditor General

CHAPTER 2

HIGHLIGHTS AND ACCOMPLISHMENTS

Following is a summary of key highlights and accomplishments for our Office during the fiscal year ending March 31, 2014:

2.1 External Practice Inspection

During 2013-14, the Office participated in the Institute of Chartered Accountants of Newfoundland and Labrador Practice Inspection Program. The objective of this Program is to determine if a member firm has policies, practices and procedures in place that would enable it to provide public accounting services in accordance with the standards of the profession. As part of this process, a Practice Inspector from the Institute visited the Office to review a selection of attest audit files, to examine the Office's Quality Control processes and meet with members of senior management of the Office. The results of the practice inspection was reviewed by the Practice Inspection Committee of the Institute who advised that no further action was required with respect to the inspection and recommended that our next inspection be scheduled in the normal three year inspection cycle. While no further action was required, the Practice Inspector did make some recommendations for improvements to our audit and quality assurance processes. We are in the process of implementing the recommendations of this practice inspection.

2.2 Three Year Performance Audit Plan

During 2013-14, the Auditor General and Deputy Auditor General, in consultation with Audit Managers and their teams, developed a three year plan for the completion of performance audits. Such a process will allow the Office to make strategic choices based on risk to ensure our mandate is met so that the members of the House of Assembly are best served. There is also an opportunity to realize some efficiencies with a rolling three year plan since there will always be projects identified for audit.

2.3 Canadian Council of Legislative Auditors

All legislative audit offices in Canada are members of the Canadian Council of Legislative Auditors (CCOLA) which serves to promote professional legislative auditing in Canada. This membership enables our employees to participate on various CCOLA committees and groups established to address issues of common concern such as professional practice, performance audits or human resources. During 2013-14, the Auditor General of Newfoundland and Labrador was the Chair of the Planning and Coordination Committee of CCOLA. In addition, the Office now has membership on all CCOLA committees and groups.

2.4 Professional Development

As part of our efforts to continue providing meaningful professional development to our staff, a concentrated effort was made during the year to provide staff with opportunities for professional and leadership development.

2.5 Performance Measures

Our Office is accountable to the House of Assembly for its performance. In this section we provide a comparison of our performance against the criteria established for our lines of business - financial statement audits of the Province, financial statement audits of Crown agencies, performance audits and special assignments - outlined in the Mandate section of our Business Plan for 2011-12 to 2013-14.

	Performance Measures	Status 2013-14
1.	Complete our audit of the financial statements of the Province within the time schedule agreed upon with the Office of the Comptroller General and complete all other financial statement audits within three months of their fiscal year-end.	Our Independent Auditor's Report on the Public Accounts for the year ended March 31, 2013 was dated December 30, 2013. The Public Accounts were released by Government on January 14, 2014. The original time schedule provided by the Office of the Comptroller General called for the Public Accounts to be tabled during the Fall of 2013. The delay in the completion of our audit of the Public Accounts was the result of new and complex issues being identified during the audit and resource constraints experienced by this Office due to a 12% reduction in the Office's operating budget. Of the 26 Crown agency financial statement audits that were performed during 2013, only 5 were completed within three months of the fiscal year-end. Of the remaining 21, one could not be performed during 2013-14 as the agency was not ready for audit, while 20 were delayed as a result of a combination of a lack of appropriate resources at our Office to complete the audits due to a 12% reduction in the Office's operating budget, new issues that were identified during the audits that were not known previously, and audit staff being assigned to the audits who were either unfamiliar with the particular audit or generally less experienced. We note that the audits of all agencies, except for the agency that was not available for audit, were completed in time for the agency to meet their statutory reporting deadline. ***Note: Although comments in this Report relate to the fiscal year ended March 31, 2014, for the most part comments on our work relate to financial statements for the fiscal year ended March 31, 2013.***

	Performance Measures	Status 2013-14
2.	Complete all audits (Crown agencies and financial statements of the Province) within budget for time and monitor actual time relative to budget. Our target for success is to be within a 10% variance of budget for time and cost.	Of the 26 Crown Agency financial statement audits that were performed during 2013, 4 audits were completed within 10% variance of budget for time and cost, one audit could not be performed during 2013-14 as the agency was not ready for audit, and 21 audits were not completed within 10% variance of budget as a result of a combination of a lack of appropriate resources at our Office to complete the audits due to a 12% reduction in the Office's operating budget, audit staff being assigned to the audits who were either unfamiliar with the particular audit or generally less experienced, and new issues that were identified during the audits that were not known previously. ***Note: Although comments in this Report relate to the fiscal year ended March 31, 2014, for the most part comments on our work relate to financial statements for the fiscal year ended March 31, 2013.***
3.	The Executive Committee will meet with Audit Managers on an annual basis to obtain an overview of their work. We will also have an annual meeting with all audit staff to identify possible projects.	In August 2013, members of the Executive Committee met with the Audit Managers to identify possible performance audits to be included in our performance audit plan for the three year period 2014 to 2016. Prior to this meeting, each Audit Manager met with their team to review their suggestions for performance audits to be included in the three year performance audit plan. The Executive Committee and Audit Management group met in March 2014 to review past work, discuss strategic human resource issues and plan for upcoming audits.
4.	Monitor the degree to which our recommendations have been implemented or major issues have been addressed. Our target for success is that 80% of all recommendations be implemented within two years of our report date.	On May 2, 2014, we released the report *Update on Prior Years' Report Recommendations* related to monitoring the implementation status of prior years' recommendations.
5.	Provide the House of Assembly with our reviews of departments and monitoring of Crown agencies by January 31 of the year following the previous fiscal year-end.	Our 2013 Report to the House of Assembly on *Reviews of Departments and Crown Agencies* was provided to the Speaker on January 23, 2014.

Performance Measures	Status 2013-14
6. Report on all special assignments conducted within the time period requested.	There were no special assignments to report on for the period April 1, 2013 to March 31, 2014.
7. Provide the House of Assembly with an accountability report on our Office by September 30 of each year.	Our Office presented its Report on our Business Plan to the Speaker of the House of Assembly on September 20, 2013.

CHAPTER 3
PERFORMANCE

In 2011, a new Business Plan was developed which was designed to guide our Office for the fiscal years from April 1, 2011 to March 31, 2014. This section provides an update on the planned performance associated with each strategic issue from our Plan on an overall basis and also for the year 2013-14.

Update on Progress Related to Strategic Issues, Goals and Objectives

3.1 Issue #1: Business Processes (Legislative Audit Projects)

Conducting relevant legislative audit projects is a critical part of how the Office meets our mandate of promoting accountability and creating positive change in Government. To be effective in creating that positive change, legislative audits must be timely and relevant to the public and the House of Assembly. Over twenty years ago, our Office developed a database of information relating to all departments and agencies of the Crown that was used to assist with the selection of legislative audit projects. This database needed to be reviewed and the software upgraded to ensure that it reflected the Office's current needs.

Update on Overall Progress for the 2011-2014 Business Plan Period

Goal: By March 31, 2014, the Office of the Auditor General will have implemented and tested an updated identification and selection process for legislative audits.

Measure: Implemented and tested an updated identification and selection process for legislative audits.

Indicators: Updated the project identification and selection process.

Updated the comprehensive database of departments and Crown agencies, related sectors and program areas.

Results: A new identification and selection process for legislative audits has been developed. A template to document ideas for potential projects is now in use. The template includes guidance on risk assessment and how to analyze different criteria for ranking projects. The Office uses this process to compile a listing of potential projects based upon assessed risk which are then allocated by department/crown agency. Such a process allows the Office to make strategic choices based on risk and to ensure sufficient coverage of our audit universe. This enables the Office to fulfill its mandate and to best serve the members of the House of Assembly.

In 2011, the Office established a working group to perform the required analysis and make recommendations as it related to the project identification and selection process. Included in this analysis was a review of an existing database of information relating to all departments and Crown agencies. Major deficiencies were identified with the software which made it not feasible to proceed with an upgrade to the existing system. We are presently considering alternatives to this database.

Update on Progress for the year ended March 31, 2014

Objective: By March 31, 2014, the Office of the Auditor General will have documented and implemented an updated system for the identification and selection of legislative audits.

Measure: Documented and implemented an updated system for the identification and selection of legislative audits.

Business Processes (Legislative Audit Projects)			
	Planned Performance for 2013-14	**Actual Performance for 2013-14**	**Explanation of Variance (if applicable)**
1	Documented policies and procedures for identifying and selecting legislative audits.	A template to document ideas for potential projects has been developed. The template includes guidance on risk assessment and how to analyze different criteria for ranking projects.	N/A
2	Implemented system for identifying and selecting legislative audits.	During 2013-14, we again used the project identification template to identify, rank and select subject areas for legislative audits.	N/A

3.2 Issue #2: Human Resource Management

Succession was a strategic issue for the Office during this planning cycle as 7 of 10 members of the senior management group were eligible for retirement. It was critical that the corporate memory of remaining staff in the Office be at a level that enabled a smooth transition through this demographic shift.

Update on Overall Progress for the 2011-2014 Business Plan Period

Goal: By March 31, 2014, the Office of the Auditor General will have improved succession planning by enhancing our professional development strategy which is designed to ensure that staff are adequately trained to fill key positions and maintain our ability to conduct audits.

Measure: Improved Succession Planning

Indicators: Enhanced our professional development strategy.

Staff attended relevant professional development.

Audit staff rotated through various types of audit included in our annual Operational Plan.

Results: In 2011, 7 of the 10 members of the executive and senior management team were eligible for retirement during the three year Business Plan cycle. During 2011-14, 6 of these retirements occurred which saw several promotions within the Office in addition to a new Auditor General. To prepare for the succession that was to occur, the Office enhanced its professional development strategy by identifying additional opportunities for staff to further develop their human resource management skills through formal training (courses), mentoring, and relevant work assignments. This, in addition to continued professional development opportunities in accounting and assurance, ensured that our audit staff had the required knowledge and experience to assume more challenging roles within our Office as they became available. In addition, greater emphasis was placed on ensuring that audit staff were rotated through the various types of audit assignments available at our Office to build the appropriate experience needed to take advantage of succession opportunities.

Update on Progress for the year ended March 31, 2014

Objective: By March 31, 2014, the Office of the Auditor General will have updated the Employee Development Program to address additional succession planning considerations.

Measure: Updated Employee Development Program with additional succession planning considerations incorporated.

Human Resource Management			
	Planned Performance for 2013-14	**Actual Performance for 2013-14**	**Explanation of Variance (if applicable)**
1	Enhanced mentoring and supervision skills through attendance of senior audit staff at available human resource management training.	During 2013-14, on-the-job mentoring and supervision opportunities continued but no formal training in human resource management was offered to our management group.	Due to resource constraints during 2013-14, a decision was made to concentrate training in accounting, assurance and other technical areas.
2	Employee Development Program developed which includes specific training considerations to address any identified succession planning needs.	Our Employee Development Program was enhanced by identifying additional opportunities for staff to further develop their human resource management skills through formal training (courses), mentoring, and relevant work assignments. During 2013-14, opportunities for staff to further develop their human resource management skills were achieved through mentoring and the provision of relevant work assignments.	N/A

3.3 Issue #3: Information Technology

Confidentiality of the Office's audit working papers/data is required by the *Auditor General Act*. Therefore, by law, only authorized access to our audit working papers/data is permitted. Today's fast paced and ever-changing Information Technology (IT) environment means that we must be continuously vigilant in ensuring the security and integrity of our audit working papers/data. With regards to electronic records/data, the Office manages a dedicated domain server which includes multi-layered authentication protocols for staff to follow when accessing our system. Because the server is separate from Government and the House of Assembly, protection of our information is the sole responsibility of the Office of the Auditor General.

Update on Overall Progress for the 2011-2014 Business Plan Period

Goal: By March 31, 2014, the Office of the Auditor General will strengthen controls related to the protection of the Office's audit working paper/data.

Measure: Strengthened controls related to the protection of the Office's audit working papers/data.

Indicators: Ensured continuous backup computer systems through mirrored servers between the St. John's and Corner Brook Offices.

Updated the IT Audit Toolkit for auditors.

Updated the Office's Business Continuity Plan.

Results: The Office has strengthened controls related to the protection of the Office's audit working papers and data through the following:

- encrypting the hard drives of individual laptops to strengthen controls related to access to audit working papers and data;
- virtualizing the Office servers to allow for more efficient backup and replication methodology with multiple restore points. We are replicating complete virtualized servers and data across a virtual private network to our Corner Brook office, ensuring continuous backup of our computer systems;
- the Office updated its Business Continuity Plan to provide for an efficient process to restore data, allowing the Office to return to normal operations as quickly as possible;
- the IT audit toolkit for auditors was updated through improving computer hardware, software and associated training that was provided to all audit staff to assist in completing assigned work in an effective and efficient manner; and
- the Office implemented a process to ensure that attest audit files are locked down within 60 days of the date of the Independent Auditor's Report. This improves security by preventing undocumented changes to the file after the lock down occurs.

Update on Progress for the year ended March 31, 2014

Goal: By March 31, 2014, the Office of the Auditor General will strengthen controls related to the protection of the Office's audit working paper/data.

Objective: By March 31, 2014, the Office of the Auditor General will have updated the measures in place to enhance the protection of the Office's Audit Working Papers/data.

Measure: Updated system in place to enhance the protection of the Office's Audit Working Papers/data.

Information Technology			
	Planned Performance for 2013-14	**Actual Performance for 2013-14**	**Explanation of Variance (if applicable)**
1	Implementation of the Caseware Working Papers Data Store Administration Tool.	Caseware Working Papers Data Store Administration Tool was not implemented during 2013-14.	This application will require a significant time commitment by our Network Administrator and Audit Managers. Since access to files will be restricted it may also affect the operations of the Office. More time is required to decide how access will be restricted and possible impacts before we move forward with this application.
2	Adoption of measures that allow for greater security of Audit Working Papers/data by locking down files and assigning roles to restrict access to the appropriate level of responsibility.	During 2013-14, the Office implemented a process to ensure that attest audit files are locked down within 60 days of the date of the Independent Auditor's Report. Roles have not been assigned to restrict access within audit files. Legislative audit files are not subject to lock down procedures.	Roles have not been assigned to restrict access within audit files because the Office is concerned that such assignments may negatively impact the operations of the Office. Given the small number of audit staff and files, there is a certain fluidity that may be compromised by assigning roles. Further assessment of the possible impacts is required before a decision can be made.

Information Technology			
	Planned Performance for 2013-14	**Actual Performance for 2013-14**	**Explanation of Variance (if applicable)**
			The Office has not yet made a decision as to whether or not it is feasible to lock down files related to legislatives audits given the time frame involved to complete follow-up activities that occur with these files.

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CHAPTER 4
OPPORTUNITIES AND CHALLENGES AHEAD

Following is a summary of opportunities and challenges anticipated for our Office during the fiscal year ending March 31, 2015 and beyond:

4.1 Amendments Required to the *Auditor General Act*

Changes to the *Auditor General Act* (the *Act*) continue to be a priority for the Office and amendments to the *Act* have been proposed. These proposed changes should meet the needs of the House of Assembly and are consistent with the mandate of a modern Auditor General's office. Amendments were first proposed in April 2005 by a former Auditor General. Further contact was made in October and July 2008 but little progress was made. In April 2013, the current Auditor General again proposed amendments to the *Act*. The Office continues to pursue progress on these amendments. The current *Act* was assented to in October 1991. Since that time, many changes have occurred in both the Office and the legislative auditing community generally. Several amendments to the *Act* are required to ensure that our governing legislation allows the Office to serve the members of the House of Assembly in the most effective manner possible.

4.2 Office Resource Management

The Office will be challenged in 2014-15, and beyond, to match resources with scheduled audits. While our attest audit line of business consumes approximately 50% of our budgeted time, the performance of this work is concentrated during the period May to August as a result of the Province and most Crown agencies having a March 31 year end. Given the legislative deadlines in place and the desire to have financial statements available as soon after year end as possible, there are limited opportunities available for flexibility in scheduling the completion of this work. The Office is exploring alternatives that will ensure continued improvement in the timeliness of completion of all attest audits. Both the Office and the Government and its Crown agencies have a desire to improve accountability through the more timely release of financial statements.

4.3 Performance Audits

Conducting relevant performance audits is a critical part of how the Office meets our mandate of promoting accountability and creating positive change in Government. To be effective in creating that positive change, performance audits must be timely and relevant to the public and the House of Assembly. Performing appropriate risk evaluations of Government programs continue to be a priority and a challenge. To assist in completing performance audits that have relevance and which are effective in creating positive change, the Office intends to develop a new methodology for our performance audit practice.

4.4 Professional Development

The Office is committed to ensuring that all staff are equipped with the proper skill set to complete the work assigned. The challenge is to provide the appropriate soft skills as well as the technical training required. The Office will look for opportunities to provide the required training through collaborating with other legislative audit offices, Government and our professional accounting body. To ensure staff receive the training that they require, the Office will develop a methodology to identify the appropriate training needs.

4.5 Advancing Technology

The Office has virtualized its server environment to minimize the physical hardware required to operate its infrastructure. In conjunction with the Office's Business Continuity Plan, we are evolving our current back-up and recovery procedures to protect our data and provide uninterrupted access to our system for auditors to conduct their work. The Office is investigating various cloud based methodologies to house archival data and cloud based application availability to provide software collaboration and mobile access.

4.6 Peer Review

To ensure the Office's work is of the highest quality and in compliance with generally accepted accounting principles and generally accepted auditing standards of the Chartered Professional Accountants of Canada, the Office participates in the peer review program offered through the Canadian Council of Legislative Auditors. In addition, during 2013-14, as an opportunity to further enhance the Office's quality assurance, the Office participated in the practice inspection program of the Institute of Chartered Accountants of Newfoundland and Labrador. As a result of this inspection, the Institute made some recommendations for improvements to our audit and quality assurance processes. We are in the process of implementing the recommendations of this practice inspection. During 2014-15, a peer review of an attest audit file by another legislative audit office is scheduled to be completed. These reviews by our peers provide the Office the opportunity to improve our quality control process and identify training requirements for staff.

4.7 Three Year Performance Audit Plan

The Office has established a process for compiling a three year plan for performance audits. Such a process allows the Office to make strategic choices to ensure our mandate is met and that the members of the House of Assembly are best served. There is also an opportunity to realize some efficiencies with a rolling three year plan since there will always be projects identified for audit.

During 2013-14, the Office developed its first three year plan for completion of performance audits. The plan will be adjusted and updated annually to ensure that the subjects selected for performance audit are significant and relevant to the Members of the House of Assembly.

CHAPTER 5
FINANCIAL INFORMATION

This section includes the audited financial statements of the Office for the year ended March 31, 2014.



Financial Information

Office of the Auditor General

Province of Newfoundland and Labrador

March 31, 2014

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Independent auditors' report

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To the Members of the
House of Assembly Management Commission
Province of Newfoundland and Labrador

At the request of the Clerk of the House of Assembly, and in accordance with Section 32 of *The Auditor General Act*, we have audited the supplementary financial information of the Office of the Auditor General, Province of Newfoundland and Labrador as at March 31, 2014, the schedule of expenditures and related revenue and the schedule of gross expenditures and unexpended balances, for the year then ended.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of this financial information in accordance with the policies disclosed in Note 2, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on this financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information presents fairly, in all material respects, the financial position of the Office of the Auditor General, Province of Newfoundland and Labrador, as at March 31, 2014, and the results of its operations for the year then ended in accordance with policies disclosed in Note 2.

Other matters

This financial information, which has not been, and was not intended to be, prepared in accordance with Canadian generally accepted accounting principles, is solely for the information and use of the House of Assembly Management Commission to comply with the Act. This information is not intended to be used for any other purpose.

Grant Thornton LLP

St. John's, Canada

June 26, 2014

Chartered Accountants

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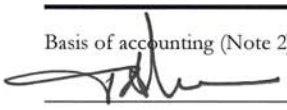
Office of the Auditor General
Province of Newfoundland and Labrador
Supplementary Financial Information

Year Ended March 31	2014	2013
Assets		
Current		
Audit fees work in progress	**$ 173,668**	$ 148,879
Accountable advance	**700**	700
Prepaids	**29,686**	14,239
	$ 204,054	$ 163,818
Liabilities		
Current		
Accrued paid/annual leave	**$ 973,639**	$ 966,314
Accrued payroll	**41,510**	32,528
Accrued overtime	**2,684**	6,039
Accrued severance pay	**502,747**	520,622
	$ 1,520,580	$ 1,525,503

Basis of accounting (Note 2)



Auditor General

See accompanying notes to the financial information.

Office of the Auditor General
Province of Newfoundland and Labrador
Schedule of Expenditures and Related Revenue

Year Ended March 31

	2014			2013
		Estimates		
	Actual	Amended	Original	Actual
Executive Support				
Salaries	**$ 221,070**	$ 221,700	$ 217,500	$ 212,030
Salaries (statutory)	**178,029**	171,100	169,700	394,497
Employee benefits	**5,069**	5,100	5,000	4,711
Transportation and communications	**16,874**	20,000	20,000	19,012
Professional services	**-**	5,000	5,000	-
Purchased services	**197**	1,000	1,000	366
	$ 421,239	$ 423,900	$ 418,200	$ 630,616
Administrative Support				
Salaries	**$ 209,600**	$ 209,700	$ 205,400	$ 205,692
Employee benefits	**4,983**	5,400	8,500	13
Transportation and communications	**26,846**	32,100	40,500	25,937
Supplies	**85,510**	94,400	99,400	87,267
Professional services	**1,030**	2,000	6,000	10,000
Purchased services	**182,573**	196,000	211,600	191,106
Property, furnishings and equipment	**25,943**	31,100	31,100	93,670
	$ 536,485	$ 570,700	$ 602,500	$ 613,685
Audit Operations				
Salaries	**$ 2,278,851**	$ 2,279,100	$ 2,190,600	$ 2,387,023
Employee benefits	**66,102**	72,300	81,300	79,292
Transportation and communications	**59,801**	72,500	72,500	68,822
Professional services	**9,800**	10,000	10,000	59,493
	2,414,554	2,433,900	2,354,400	2,594,630
Revenue – Provincial	**(244,580)**	(262,700)	(262,700)	(224,665)
	$ 2,169,974	$ 2,171,200	$ 2,091,700	$ 2,369,965
Net expenditures	**$ 3,127,698**	$ 3,165,800	$ 3,112,400	$ 3,614,266

Basis of accounting (Note 2)

See accompanying notes to the financial information.

Office of the Auditor General
Province of Newfoundland and Labrador
Schedule of Gross Expenditures and Unexpended Balances

Year Ended March 31	2014	2013
Original estimates (net)	$ 3,165,800	$ 3,499,300
Add: revenue estimates net of statutory payments	91,600	65,700
Total appropriation	3,257,400	3,565,000
Total net expenditure	3,127,698	3,614,266
Add: revenues in excess of statutory payments (statutory payments in excess of revenue)	66,551	(169,832)
Total gross expenditure (budgetary, non-statutory)	3,194,249	3,444,434
Unexpended balance of appropriation	$ 63,151	$ 120,566

See accompanying notes to the financial information.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2014

1. Nature of operations

The *Auditor General Act* creates the Office of the Auditor General to assist in carrying out the duties prescribed. The *Act* appoints the Auditor General as the House of Assembly's independent legislative auditor of Government, its departments, agencies of the Crown, and Crown controlled corporations. The Auditor General reports to the House of Assembly, on significant matters which result from the examination of these entities.

2. Summary of significant accounting policies

This financial information has been prepared in accordance with the accounting policies set out below.

Basis of accounting

The Supplementary Financial Information is prepared on the accrual basis of accounting. The Schedule of Expenditures and Related Revenue and the Schedule of Gross Expenditures and Unexpended Balances are based on the modified cash basis.

Assets and liabilities

Assets and liabilities are recorded on a basis consistent with the policies used in preparing the Public Accounts of the Province of Newfoundland and Labrador. Direct liabilities and convertible assets such as amounts receivable are reported on the Supplementary Financial Information on an accrual basis.

Capital assets

Capital asset acquisitions are charged as budgetary expenditures and are expensed in the year of acquisition on the Schedule of Expenditures and Related Revenue. Capital assets are not reported on the Supplementary Financial Information but are reported in the Public Accounts of the Province of Newfoundland and Labrador.

Revenue recognition

Audit fee revenue is recorded on the modified cash basis as payment is received on the Schedule of Expenditures and Related Revenue. Audit fees work in progress on the Supplementary Financial Information are on the accrual basis of accounting.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2014

2. Summary of significant accounting policies (cont'd.)

Operating expenses

Expenses are recorded on the modified cash basis as payments are made on the Schedule of Expenditures and Related Revenue. Accrued leave, overtime, and payroll are recorded on the Supplementary Financial Information on the accrual basis of accounting.

Severance pay

Severance pay is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to be paid severance pay vests with employees upon nine years or more of service, and accordingly no provision has been made in the accounts for employees with less than nine years of continual service. The amount is payable when the employee ceases employment with the Province.

Income taxes

The Office of the Auditor General is not subject to Provincial or Federal income taxes.

3. Commitments

The Office is committed to annual rental payments for the next four years as follows: 2015 - $100,935; 2016 - $29,160; 2017 - $29,160 and 2018 - $12,150.

4. Employee future benefits

Under the *Auditor General Act*, all persons employed in the Office of the Auditor General are employees for the purposes of the *Public Service Pensions Act, 1991*, and are entitled to all the benefits under that *Act*. No pension or other post employment future benefit expenditures have been recorded in this financial information.

Pension liability and group life and health insurance liability are recognized in the Public Accounts for all public servants. Pension expense and group life and health insurance expense for public servants are also reported in the Public Accounts under the Consolidated Fund Services. The Province matched the contributions of public servants and these expenses are recorded under the Consolidated Fund Services.

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APPENDICES

APPENDIX I

DEPARTMENTAL AUDITS PERFORMED BY THE OFFICE OF THE AUDITOR GENERAL AS AT MARCH 31, 2014

(as they were presented in the Province's Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for the year ended March 31, 2013)

General Government Sector

Consolidated Fund Services
Executive Council
Finance
Public Service Commission
Service NL
Transportation and Works

Legislative Branch

Legislature

Resource Sector

Advanced Education and Skills
Environment and Conservation
Fisheries and Aquaculture
Innovation, Business and Rural Development
Natural Resources
Tourism, Culture and Recreation

Social Sector

Child, Youth and Family Services
Education
Health and Community Services
Justice
Municipal Affairs
Newfoundland and Labrador Housing Corporation

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APPENDIX II

CROWN AGENCY FINANCIAL STATEMENTS

AUDITED BY THE OFFICE OF THE AUDITOR GENERAL

AS AT MARCH 31, 2014

Department of Advanced Education and Skills

Private Training Corporation
Student Loan Corporation of Newfoundland and Labrador

Department of Education

Provincial Information and Library Resources Board

Department of Environment and Conservation

C.A. Pippy Park Commission
C.A. Pippy Park Golf Course Limited

Executive Council

Provincial Advisory Council on the Status of Women - Newfoundland and Labrador

Department of Finance

Newfoundland and Labrador Government Sinking Fund
Newfoundland and Labrador Industrial Development Corporation
Newfoundland and Labrador Municipal Financing Corporation
Newvest Realty Corporation
Province of Newfoundland and Labrador Pooled Pension Fund

Department of Innovation, Business and Rural Development

Business Investment Corporation
Newfoundland and Labrador Immigrant Investor Fund Limited
Research & Development Corporation of Newfoundland and Labrador

Department of Justice

Director of Support Enforcement
Newfoundland and Labrador Legal Aid Commission
Office of the High Sheriff of Newfoundland and Labrador
Office of the Public Trustee
Supreme Court of Newfoundland and Labrador

Department of Natural Resources

Livestock Owners Compensation Board
Newfoundland and Labrador Crop Insurance Agency

Service NL

Consumer Protection Fund for Prepaid Funeral Services

Department of Tourism, Culture and Recreation

Heritage Foundation of Newfoundland and Labrador
Newfoundland and Labrador Arts Council
The Rooms Corporation of Newfoundland and Labrador

Department of Transportation and Works

Newfoundland and Labrador Housing Corporation (Reports through Minister)

APPENDIX III

CROWN AGENCY FINANCIAL STATEMENTS

AUDITED BY PRIVATE SECTOR AUDITORS

AS AT MARCH 31, 2014

Department of Advanced Education and Skills

College of the North Atlantic
Memorial University of Newfoundland
Memorial University of Newfoundland - Pension Plan

Department of Education

School Boards:
- Conseil scolaire francophone provincial de Terre Neuve et du Labrador
- District #1 Labrador
- District #2 Western
- District #3 Nova Central
- District #4 Eastern

Department of Environment and Conservation

Multi-Materials Stewardship Board
Multi-Materials Stewardship Board - Waste Management Trust Fund

Department of Finance

Newfoundland and Labrador Liquor Corporation

Department of Health and Community Services

Newfoundland and Labrador Centre for Health Information
Public Health Laboratory
Regional Health Authorities:
- Central
- Eastern
- Labrador - Grenfell
- Western

Department of Innovation, Business and Rural Development

Newfoundland Hardwoods Limited
Newfoundland Ocean Enterprises Limited

Department of Municipal Affairs

Municipal Assessment Agency Inc.

Department of Justice

Board of Commissioners of Public Utilities

Department of Natural Resources

Canada-Newfoundland and Labrador Offshore Petroleum Board
Chicken Farmers of Newfoundland and Labrador
Churchill Falls (Labrador) Corporation Limited
Dairy Farmers of Newfoundland and Labrador
Egg Producers of Newfoundland and Labrador
Gull Island Power Company Limited
Lower Churchill Development Corporation Limited
Nalcor Energy
Nalcor Energy - Bull Arm Fabrication Inc.
Nalcor Energy - Oil and Gas Inc.
Newfoundland and Labrador Hydro Electric Corporation
Labrador-Island Link General Partner Corporation
Labrador-Island Link Holding Corporation
Labrador-Island Link Partnership
Twin Falls Power Corporation Limited

Service NL

Credit Union Deposit Guarantee Corporation
Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador

Department of Tourism, Culture and Recreation

Marble Mountain Development Corporation
Newfoundland and Labrador Film Development Corporation
Newfoundland and Labrador Sports Centre Inc.

APPENDIX IV

ANSWERS TO FREQUENTLY ASKED QUESTIONS ABOUT THE OFFICE OF THE AUDITOR GENERAL

What is the Auditor General's Role in Public Sector Accountability?

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 and the House of Assembly.

How is Government Accountable to the House of Assembly?

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 the House of Assembly. While it is up to Government to draft budgets and spending estimates, Government 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:

- overseeing the activities of Government; and
- 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 assurances 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?

What is the role of Legislative Auditors?

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.

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.

Why is 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 October 31, 1991.

What is 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 license 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.

What is 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 resources. 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.

How do Legislative Auditors differ from Other Audit Professionals?

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 public sector.

What is meant by "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 Government's 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.

What is the 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.

To whom does the Auditor General Report?

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.

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 fulfil 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.

The resources available to the Auditor General are determined through discussion with the House of Assembly Management Commission. 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 to be audited by an auditor appointed by the Commission, with the audited statements being tabled in the House of Assembly.

Who Audits the Auditor General?

Each year, the financial statements for the Office are to be audited by an auditor appointed by the House of Assembly Management Commission, with the audited statements being tabled in the House of Assembly.

As well, the Public Service Commission, the Government Purchasing Agency and the Office of the Comptroller General have the authority to and regularly review related aspects of the Office's operations.

Furthermore, a sample of our audit files are periodically reviewed by a representative of another Canadian Legislative audit office to ensure that our files comply with Canadian generally accepted auditing standards.

Finally, the Office participated in the Practice Inspection Program of the Institute of Chartered Accountants of Newfoundland and Labrador to ensure we maintain an appropriate level of quality and adhere to appropriate standards.

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