OFFICE OF THE AUDITOR GENERAL



Report to the House of Assembly on the Business Plan

For the Year Ended March 31, 2016

Office of the Auditor General
Newfoundland and Labrador



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. 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 as to the fair presentation of their financial statements.

VISION

The Office of the Auditor General is an integral component of Government accountability.

Head Office Location

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AUDITOR GENERAL
of Newfoundland and Labrador

September 30, 2016

The Honourable Tom Osborne, 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, 2016.

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, 2016, and is the second Report related to the Office's *Business Plan, 2014 - 2017*. That Plan was presented to the Speaker of the House of Assembly on June 30, 2014. This report is designed to provide Members of the House of Assembly with a full overview of the operations of the Office during 2015-16: our plan, our budget and the results achieved. I am accountable for the actual results reported.

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, CPA, CA
Auditor General

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CHAPTER 1
OVERVIEW

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1.1 Responsibility

The House of Assembly is responsible for overseeing the activities of Government and for holding Government accountable for its management of public money and other public resources. The Government reports to the House of Assembly on a regular basis with information about how public funds are used. The Office of the Auditor General is an independent resource available to the House of Assembly to assist in the financial oversight process.

The primary characteristic of the Office of the Auditor General is the independent, non-partisan, nature of the office which is intended to ensure objective oversight of the operations of Government. This role is an integral component of the accountability relationship which exists between all levels of Government through to the House of Assembly.

The Auditor General has a responsibility to report directly to the House of Assembly. In accordance with the *Auditor General Act*, the Auditor General is required to provide the House of Assembly with timely, relevant information, necessary to enhance public sector accountability and performance. This requirement to report is centered on the concept of accountability and is central to our system of Government.

Accountability fosters public trust and confidence in the integrity of the political system and focuses on the key aspects of Government performance relative to intended results which will, over time, lead to improved performance. The Office of the Auditor General recognizes that the continued relevance and credibility of its reports is of paramount importance if the Office is to meet the needs of the Members of the House of Assembly.

1.2 Mandate

The mandate of the Office of the Auditor General is derived from the *Auditor General Act* and includes the following:

- The Auditor General is the independent auditor of the financial statements of the Province and expresses an opinion annually as to the fair presentation of those financial statements.

- Where appointed by statute or where an auditor has not been appointed to audit an agency of the Crown or a Crown controlled corporation, the Auditor General shall be the independent auditor.

- The Auditor General reports to the House of Assembly on any significant results of audits, examinations and inquiries of Government departments, Crown corporations or Crown agencies.

- The Auditor General, where in his or her opinion such an assignment does not interfere with the Auditor General's primary responsibilities under the *Auditor General Act*, may carry out special assignments whenever requested by the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee.

1.3 Vision

The Office of the Auditor General is an integral component of Government accountability.

1.4 Mission

By March 31, 2017, the Office of the Auditor General will have enhanced its provision of high quality audit services to the House of Assembly. The measure and associated indicators of this mission are:

Measure:

Enhanced provision of high quality audit services

Indicators:

- Developed and implemented a performance audit methodology that incorporates value-for-money.

- Improved timelines for completing financial statement audits, as compared to 2012-13 baseline.

- Developed and implemented an employee performance management program.

1.5 Values

Values are the fundamental principles that guide behaviour and decision making. They are the critical success factors that are essential to effective performance-based planning because they underline the decision-making process, impacting the ability of any organization to achieve defined goals and objectives. Clear communication and articulation of values promotes alignment between organizational culture and achievement of outcomes.

Above all else, the Office of the Auditor General must have independence, credibility and integrity. These are essential to everything we do; critical to our success.

Independence

The Office of the Auditor General must remain independent of Government and the Government Entities it audits. This independence is fundamental to the Office's ability to ensure objective oversight of the operations of Government. This role is an integral component of the accountability relationship which exists between all levels of Government through to the House of Assembly.

The Office of the Auditor General demonstrates its independence in fact and in appearance by remaining non-partisan; avoiding perceived and real conflicts of interest (politically, financially and personally); adhering to professional codes of ethics and standards; and conducting audits with objectivity, basing opinions on facts, not on pre-conceived opinions, free from influence or control by others in matters of opinion.

Credibility

To successfully fulfill our mandate, the Office of the Auditor General must provide reports and audit opinions that are considered credible by the House of Assembly and the public at large. Credibility provides value to our primary clients and stakeholders and focusing us to produce work on topics that are appropriate, timely and relevant.

The Office of the Auditor General strives to achieve credibility by producing results that are based on evidence and compliance with rigorous professional and office standards. Internal quality control measures, coupled with adherence to high-quality work ethics, produce results that reinforce our credibility. Additionally, the Office establishes its credibility by conducting relevant performance audits that evaluate value-for-money in consideration of efficiency, effectiveness and economy.

Integrity

The Office of the Auditor General holds integrity as a priority value. This is demonstrated through an uncompromising and predictably consistent commitment to rigorous professional standards. Integrity is also demonstrated through consistency in action and application of moral and ethical principles. The Office of the Auditor General consistently maintains the confidences of its auditees, considers all relevant perspectives when making decisions and remains objective, free from other influences.

1.6 Lines of business

The Office of the Auditor General delivers on its mandate through the following lines of business:

Audit of the Financial Statements of the Province and Crown Agencies

A financial statement audit results in the expression of an opinion as to the fair presentation of the Public Accounts of the Province and the financial statements of Crown agencies. We conduct these audits in accordance with generally accepted auditing standards established by the Chartered Professional Accountants of Canada. In addition, issues identified during a financial statement audit may lead to recommendations that are addressed in a letter to the auditee and/or included in the Auditor General's Report to the House of Assembly on the Financial Statements to the Province.

Performance Audit

Performance audits provide the House of Assembly with an independent, professional assessment of public sector accountability, facilitating informed judgments on the manner in which the public sector discharges its responsibilities. Performance audits may include:

- evaluation of accountability relationships, management practices and control systems;
- determination of compliance with legislation and other authorities; and
- evaluation of program results against established criteria.

The findings of the performance audits are reported in the Auditor General's Report to the House of Assembly on Reviews of Departments and Crown Agencies.

Performance audits also result in recommendations which are designed to improve processes and overall performance in the delivery of public services, and in the management of public money and other resources. It is important that Government carefully consider these recommendations and take appropriate action. Therefore, we monitor the extent to which Government implements our recommendations. We monitor and report on the status of the implementation of recommendations from each Annual Report, approximately three years after the recommendations have been implemented. We report the status of the implementation of recommendations annually in the Update on Prior Years' Recommendations.

Special Assignments

A special assignment is completed in response to a request from the Lieutenant-Governor in Council, or a resolution by the House of Assembly or the Public Accounts Committee. The nature and scope of these assignments vary, depending on the nature of the request. A special assignment will result in a report of findings to whoever makes the request.

1.7 Primary clients

Primary clients are any person, group, or organization served by or utilizing the programs, services and/or products offered by the entity. Identifying the primary client and then determining whether their needs are being met helps an organization determine its priority issues, ensure its mandated obligations are met, and drive the organization's vision and mission.

The primary client of the Office is the House of Assembly. The Office has a significant number of internal and external stakeholders which are:

- Speaker of the House of Assembly
- Members of the House of Assembly
- General Public
- House of Assembly Management Commission
- House of Assembly Audit Committee
- Public Accounts Committee
- Government Departments and Crown Agencies

1.8 Organizational structure

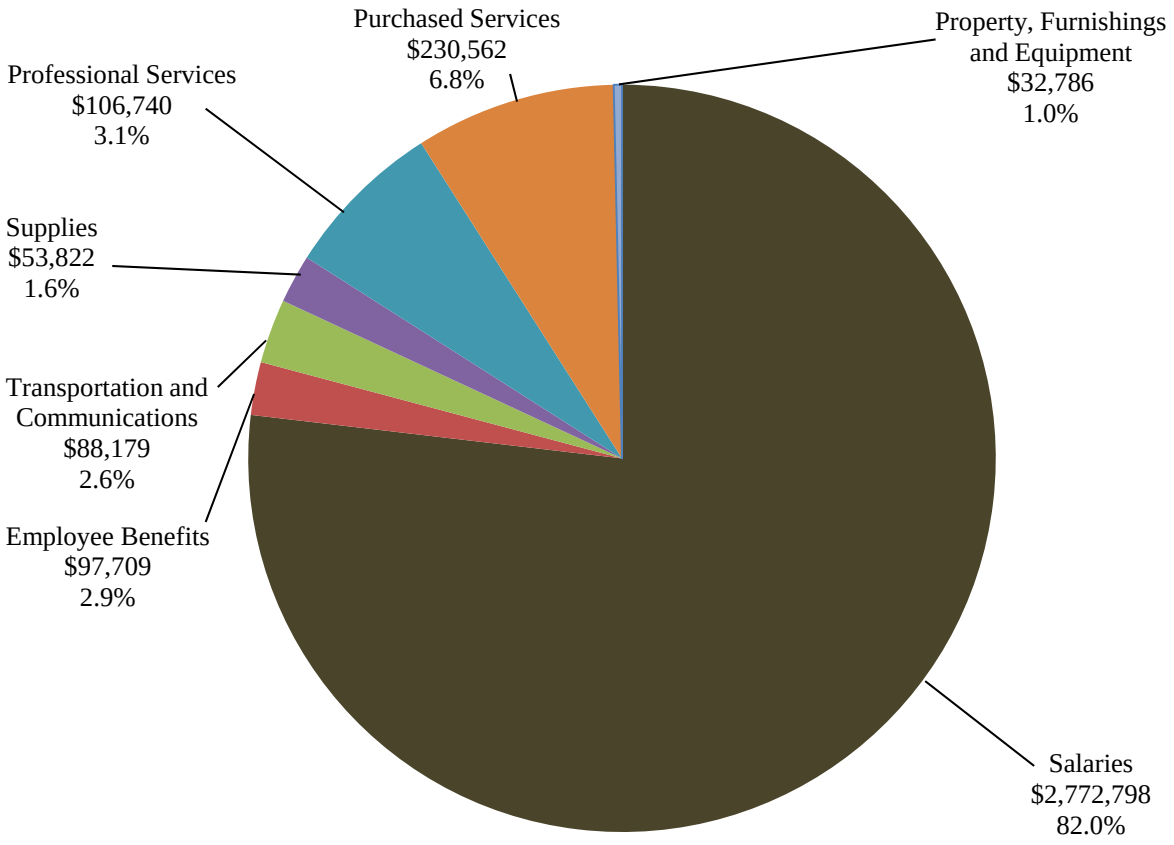
As at March 31, 2016, the Office employed 41 staff (21 male, 20 female) with 37 staff (19 male, 18 female) located at our St. John's office and the remaining 4 staff (2 male, 2 female) located at our Corner Brook office.

1.9 Expenditures

Figure 1 provides details on the $3,382,596 million in gross expenditures (excluding statutory salaries of $183,726) incurred by the Office for the year ended March 31, 2016.

Figure 1

Gross Expenditures of the Office of the Auditor General
For the Fiscal Year Ended March 31, 2016



Total Expenditure: $ 3,382,596

Approximately 89% 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.

CHAPTER 2

HIGHLIGHTS AND ACCOMPLISHMENTS

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Following is a summary of key highlights and accomplishments for our Office during the fiscal year ending March 31, 2016.

2.1 Distribution of Audit Work

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. The information is provided on a fiscal year basis to coincide with our audit cycle.

Table 1

Distribution of Audit Work
For the Year Ended March 31, 2016

	BUDGET		ACTUAL	
	Hours	**%**	**Hours**	**%**
Financial Statement Audit of the Province	9,140	28.4	10,929	31.9
Financial Statement Audits of Crown Agencies	8,450	26.3	8,915	26.1
Performance Audits	14,591	45.3	14,360	42.0
Special Projects	-	-	-	-
TOTAL	32,181	100	34,204	100

2.2 Reports issued to the House of Assembly

During 2015-16, the Office issued 3 reports to the House of Assembly:

- A report to the House of Assembly on our *2014 Update on Prior Years' Report Recommendations* was submitted to the Speaker of the House of Assembly and released publicly on May 6, 2015. That report included an update on the status of the implementation of the 588 recommendations from the 2009 to 2012 Annual Reports.

- The Office completed the audit of the Public Accounts of the Province for the year ended March 31, 2015. 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 29, 2016. 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 and its fiscal outlook.

- 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 June 11, 2015. That report included 10 separate performance audits undertaken by the Office during the year.

2.3 Financial Statement Attest Audits

The Office performed the financial statement audits and issued Independent Auditor's Reports on the Province's Consolidated Summary Financial Statements and 23 Crown agencies (Appendix I). Issues identified during these audits were reported to management for their consideration. The Office also reviewed available financial statements and management letters for 28 Crown agencies which were audited by private sector auditors during the year (Appendix II).

2.4 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. The Office has membership on most CCOLA committees and groups. During 2015-16, representatives from the Office attended the Financial Statement Symposium, the Public Accounts Forum, the Performance Audit Symposium, and the CCPAC/CCOLA Annual Conference. In addition, several employees participated in CCOLA committees and groups through attendance at annual in-person meetings and teleconferences that were held during the year.

2.5 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. In particular, staff were provided professional development courses in performance audit and evidence gathering along with ongoing coaching in leadership.

2.6 Peer Review

During 2015-16, the Office had one peer review of an attest audit file completed by another legislative audit office through a peer review program provided by the Canadian Council of Legislative Auditors. The results were positive but did indicate some areas where the Office could make improvements.

CHAPTER 3
PERFORMANCE

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In 2014, a new Business Plan was developed which was designed to guide our Office for the fiscal years from April 1, 2014 to March 31, 2017. This section provides an update on the actual results versus planned performance associated with each strategic issue from our Business Plan for the year 2015-16.

Update on Progress Related to Strategic Issues, Goals and Objectives

3.1 Issue #1: Performance Audit Methodology

The Office of the Auditor General promotes accountability and encourages positive change in the stewardship, management and use of public resources by conducting audits/reviews of Government departments and Crown agencies. In the future, our Office intends to conduct audits with a greater emphasis on whether Government is achieving value-for-money in the delivery of public services, and the management of public money and other resources. As a result, greater emphasis will be placed on determining whether Government programs are being managed with due regard for economy and efficiency, and whether there are measures in place to determine their effectiveness. Our performance audit methodology is being revised to incorporate value-for-money concepts to accommodate our increased emphasis in this area.

Goal: By March 31, 2017, the Office of the Auditor General will have implemented a performance audit methodology that incorporates value-for-money.

Objective: By March 31, 2016, the Office of the Auditor General will have initiated the implementation of a new audit methodology which incorporates value-for-money.

Measure: Continued with the implementation of a new audit methodology which incorporates value-for-money.

Performance Audit Methodology			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
1	Completion of the second phase of the three phase implementation plan, which includes the examination and reporting phases of performance audits.	During 2015-16, the Office completed the second phase of its implementation plan. The performance audit methodology used by the Office now incorporates value-for-money concepts in all three phases - planning, examination, and reporting.	N/A

Performance Audit Methodology			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
2	Identification of ongoing training requirements to ensure staff receive the appropriate training.	During 2015-16, the Office held discussions with staff to assist with identifying training requirements. The Office identified the need to provide training related to all aspects of performance audits, with emphasis on the examination and reporting phases. The Office offered two training sessions to its staff. The first session focused on all aspects of performance audits, while the second session related to evidence gathering, which emphasized the examination and reporting phases of performance audits.	N/A
3	Ongoing monitoring of the implementation process to ensure that the new audit methodology is being implemented as intended.	During 2015-16, ongoing monitoring of the implementation process involved the identification of future training requirements, the identification of audit files to receive additional reviews to ensure that the new methodology was being implemented as intended, and ongoing discussion with staff regarding the implementation of the new audit methodology. During 2015-16, reviews were performed on a sample of 4 audit files to ensure that the new methodology was being implemented as intended. Also, ongoing discussion with staff identified training requirements related to report writing and necessary revisions to the methodology.	N/A

Discussion of overall performance

During 2015-16, the Office completed all of its performance indicators. As a result, the Office's performance audit methodology now incorporates value-for-money concepts in all three phases – planning, examination, and reporting. The training sessions provided the guidance staff needed to effectively implement the new methodology in their audit assignments. Meanwhile, the quality control reviews performed on a sample of audit files indicated that the new methodology was being implemented as intended. Also, discussions held with staff provided important insight into where additional training would be beneficial to the continued implementation of the new methodology. The performance achieved during 2015-16 will allow the Office to complete the implementation of a new performance audit methodology by March 31, 2017.

Objective: By March 31, 2017, the Office of the Auditor General will have completed the implementation of a new audit methodology approach and initiated the evaluation of select components.

Measures: Implementation of a new audit methodology which incorporates value-for-money.

Evaluation of select components of the new audit methodology through inspections of completed performance audit files.

Indicators: Completed the third phase of the three phase implementation plan, which included issuing reports that offer an audit level of assurance and the establishment of a system of quality control for performance audits.

Identified ongoing training requirements to ensure staff continued to receive the appropriate training.

Inspected completed performance audit files to evaluate whether the new methodology had been implemented as intended.

3.2 Issue #2: Timeliness of Financial Statement Audits

In order for financial statement information to be beneficial to users, it has to be relevant. One of the ways relevance is achieved is by ensuring the information is received by users and decision makers in a timely manner as the usefulness of information for decision making declines as time elapses. The Office of the Auditor General is the independent auditor of the Province's financial statements and the financial statements of several Crown agencies. Our primary objective is to improve the timeliness of the audit of the Province's financial statements. We will consult with Government and review our audit approach to identify opportunities to improve the timeliness of the audit of the Province's financial statements. Improving the timeliness of the completion of Crown agency financial statement audits also provides users of these financial statements with more relevant information. Therefore, we will consult with Crown agencies and review our audit approach to identify opportunities to improve the timeliness of the audits of their financial statements.

Goal: By March 31, 2017, the Office of the Auditor General will have improved the timelines for completing financial statement audits.

Objective: By March 31, 2016, the Office of the Auditor General will have implemented new/revised audit methodologies for improving the timelines for completing financial statement audits.

Measure: Implemented new/revised audit methodologies for improving the timelines for completing financial statement audits.

Timeliness of Financial Statement Audits			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
1	Implementation of any new/revised audit methodologies which have been identified for improving the timelines for completing financial statement audits.	During 2015-16, the Office implemented new/revised audit methodologies designed to improve the timelines for completing financial statement audits. This involved performing certain audit procedures earlier in the audit process and revising certain procedures related to the audit of the Province's financial statements. The Office was also able to hire additional resources on a contractual basis during 2015-16. In addition, the Office recognized the role that auditees play in improving upon timelines for completing financial statement audits. During 2015-16, the Office continued discussions with auditees to identify options for improving upon timelines. As a result, auditees were asked to provide better quality information in a timelier manner.	N/A

Timeliness of Financial Statement Audits			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
2	Identification of ongoing training requirements to ensure staff receive the appropriate training.	During 2015-16, the Office identified relevant training requirements for staff through discussions with staff and inspections of files related to completed audit engagements. As a result, all staff were provided with training related to fraud and an update regarding Public Sector Accounting Standards. In addition, new staff were provided with significant training related to Public Sector Accounting Standards and Canadian Auditing Standards.	N/A
3	Ongoing monitoring of the implementation process to ensure that new/revised audit methodologies are being implemented as intended.	The Office has always been committed to completing audits of financial statements such that all auditees meet their statutory requirements. During 2015-16, the Office monitored the implementation of new methodologies to determine whether the methodologies had resulted in improved timelines for the completion of financial statement audits. As a result of the monitoring process, it was determined that the new methodologies were implemented as intended. However, the timelines for the completion of financial statement audits did not improve as expected.	N/A

Timeliness of Financial Statement Audits			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
		The timelines did not improve as expected because of commitments related to our other legislative responsibilities, auditee readiness for audit, and reduced resource availability. For the year ended March 31, 2015, 8 out of 24 entities were issued an audit opinion within three months of the entities' year ends. However, all entities were issued an audit opinion within their respective statutory deadline.	

Discussion of overall performance

During 2015-16, the Office completed all of its performance indicators. The Office revised some of its methodologies and worked with auditees to obtain better quality information in a timelier manner. The Office was also able to hire additional resources on a contractual basis. While the new methodologies were implemented as intended, the timelines for the completion of financial statement audits did not improve as expected. The timelines did not improve as expected because of commitments related to our other legislative responsibilities, auditee readiness, and reduced resource availability. During 2016-17, the Office will continue to work with auditees to improve timelines for the completion of financial statement audits, with consideration for our other legislative responsibilities and resource availability.

Objective: By March 31, 2017, the Office of the Auditor General will have evaluated the effectiveness of its new/revised audit methodologies to determine if they are improving the timelines for completing financial statement audits.

Measure: Evaluated the effectiveness of new/revised audit methodologies which have been implemented to improve the timelines for completing financial statement audits.

Indicators: Evaluated the effectiveness of any new/revised audit methodologies which had been implemented.

Identified ongoing training requirements to ensure staff received the appropriate training.

Evaluated the Office's financial statement attest audit practice to identify opportunities to improve the timelines for completing financial statement audits.

3.3 Issue #3: Employee Performance Management

In order to deliver upon its mandate, the Office of the Auditor General relies upon a team of professionals. An employee performance management program is crucial in the development and maintenance of a team of competent professionals. Regular performance appraisals, a key part of ongoing professional development, encourage staff to succeed and reinforce the importance of quality work and compliance with professional standards and our Office's policies. We will develop and implement a new employee performance management system that clearly communicates employee performance expectations, evaluates employees' performance against these expectations, and provides support to employees in their ongoing professional development.

Goal: By March 31, 2017, the Office of the Auditor General will have implemented a methodology to evaluate employees' performance that includes employee feedback and identification of professional development needs.

Objective: By March 31, 2016, the Office of the Auditor General will have developed an employee performance management program.

Measure: An employee performance management program will have been developed.

Employee Performance Management			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
1	An employee performance management program will have been developed.	During 2015-16, the Office commenced with the development of an employee performance management program. This included the preparation of draft performance management templates to be used when evaluating employee performance.	Due to other ongoing commitments of the Office, it was decided to defer the completion of the performance management templates until 2016-17.

Employee Performance Management			
	Planned Performance for 2015-16	**Actual Performance for 2015-16**	**Explanation of Variance (if applicable)**
		However, the templates require further revision before they can be used to evaluate employee performance. The templates need to be finalized before the development of the program can proceed any further.	
2	The employee performance management program will be presented to staff, and will include the program's objectives, and operating policies and procedures.	The program was not presented to staff.	As the performance management templates have not been finalized, it was decided to defer the presentation to staff until 2016-17.
3	Consult with staff as we further develop the program to ensure that the program satisfies the expectations of the Office and staff.	Consultation with staff did not occur.	Determining whether the program satisfies expectations would occur during the presentation to staff, which has been deferred until 2016-17.

Discussion of overall performance

During 2015-16, the Office did not achieve any of the planned performance indicators. Consequently, the Office did not achieve its objective of developing an employee performance management program. The Office recognizes the importance of an employee performance management program to the professional development of staff and delivery of our mandate. Therefore, during 2016-17, the Office will increase its efforts to complete the development and implementation of the employee performance management program.

Objective: By March 31, 2017, the Office of the Auditor General will have implemented an employee performance management program.

Measure: An employee performance management program will have been implemented.

Indicators: An employee performance management program will have been developed.

Employee performance evaluated using the employee performance management program.

The Office provided guidance to staff regarding the operation of the program.

CHAPTER 4
OPPORTUNITIES AND CHALLENGES AHEAD

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Following is a summary of opportunities and challenges anticipated for our Office during the fiscal year ending March 31, 2017 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. 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 2016-17, 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 will continue to explore 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 has developed a new methodology for our performance audit practice and the implementation of the new methodology is currently ongoing.

An additional upcoming challenge related to performance audits is that for all performance audit reports released after June 30, 2017, the Chartered Professional Accountants of Canada has released a revised standard. The Office is currently reviewing this standard to determine its impact on our audit methodology.

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. The Office is presently collaborating with other legislative audit offices to develop a methodology to identify the appropriate training needs related to financial statement attest audits, performance audits, soft skills, and information technology.

4.5 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, the Office participates in the practice inspection program of the Association of Chartered Professional Accountants of Newfoundland and Labrador. During 2016-17, peer reviews of a financial statement attest audit file and a performance audit file by other legislative audit offices are scheduled to be completed. Also during 2016-17, the Office will be subject to a practice inspection of our financial statement attest audit files by the Association of Chartered Professional Accountants of Newfoundland and Labrador. These reviews by our peers provide the Office the opportunity to improve our audit processes and identify training requirements for staff.

CHAPTER 5
FINANCIAL INFORMATION

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This section includes the audited financial statements of the Office for the year ended March 31, 2016.



Financial Information

Office of the Auditor General

Province of Newfoundland and Labrador

March 31, 2016

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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, 2016, 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, 2016, 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 29, 2016

Chartered Professional Accountants

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

Year Ended March 31	2016	2015
Assets		
Current		
Accountable advance	$ 700	$ 700
Prepaids	16,228	25,053
	$ 16,928	$ 25,753
Liabilities		
Current		
Accrued paid/annual leave	$ 1,025,974	$ 1,038,384
Accrued payroll	72,559	51,955
Accrued overtime	148	1,117
Accrued severance pay	492,835	473,727
	$ 1,591,516	$ 1,565,183

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	2016 Actual	2016 Original Budget	2015 Actual
Executive Support			
Salaries	$ 236,194	$ 236,800	$ 224,976
Salaries (statutory)	183,726	177,100	172,185
Employee benefits	3,455	5,000	10,500
Transportation and communications	15,226	15,200	10,747
Professional services	-	5,000	-
Purchased services	-	1,000	3,585
	$ 438,601	$ 440,100	$ 421,993
Administrative Support			
Salaries	$ 283,793	$ 215,100	$ 208,973
Employee benefits	-	8,500	7,812
Transportation and communications	23,018	33,500	31,179
Supplies	53,822	99,400	72,405
Professional services	-	6,000	-
Purchased services	230,562	265,800	287,896
Property, furnishings and equipment	32,786	31,100	11,833
	$ 623,981	$ 659,400	$ 620,098
Audit Operations			
Salaries	$ 2,252,811	$ 2,604,600	$ 2,148,624
Employee benefits	94,254	81,300	58,671
Transportation and communications	49,935	73,500	51,633
Professional services	106,740	100,000	233,419
	2,503,740	2,859,400	2,492,347
Revenue – Provincial	-	-	(349,655)
	$ 2,503,740	$ 2,859,400	$ 2,142,692
Net expenditures	$ 3,566,322	$ 3,958,900	$ 3,184,783

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	2016	2015
Original budget estimates (net)	$ 3,958,900	$ 3,351,800
Add: revenue estimates net of statutory payments	(177,100)	89,600
Total appropriation	3,781,800	3,441,400
Total net expenditure	3,566,322	3,184,783
Add: revenues in excess of statutory payments	(183,726)	177,470
Total gross expenditure (budgetary, non-statutory)	3,382,596	3,362,253
Unexpended balance of appropriation	$ 399,204	$ 79,147

See accompanying notes to the financial information.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2016

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. Effective April 1, 2015, the Office of the Auditor General no longer invoices for its audit services. As a result, there is no revenue recorded in the 2015/2016 fiscal year.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2016

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: 2017 - $233,109; 2018 - $216,099; 2019 - $203,949; and 2020 - $169,957.

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.

APPENDICES

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APPENDIX I

FINANCIAL STATEMENTS

AUDITED BY THE OFFICE OF THE AUDITOR GENERAL

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Province of Newfoundland and Labrador

Consolidated Summary Financial Statements

Crown Corporations and Agencies

Business Investment Corporation
C.A. Pippy Park Commission
C.A. Pippy Park Golf Course Limited
Heritage Foundation of Newfoundland and Labrador
Livestock Owners Compensation Board
Newfoundland and Labrador Arts Council
Newfoundland and Labrador Crop Insurance Agency
Newfoundland and Labrador Housing Corporation
Newfoundland and Labrador Immigrant Investor Fund Limited
Newfoundland and Labrador Industrial Development Corporation
Newfoundland and Labrador Legal Aid Commission
Newfoundland and Labrador Municipal Financing Corporation
Provincial Advisory Council on the Status of Women - Newfoundland and Labrador
Provincial Information and Library Resources Board
Research & Development Corporation of Newfoundland and Labrador
Student Loan Corporation of Newfoundland and Labrador
The Rooms Corporation of Newfoundland and Labrador

Other

Director of Support Enforcement
Newfoundland and Labrador Government Sinking Fund
Office of the High Sheriff of Newfoundland and Labrador
Office of the Public Trustee
Province of Newfoundland and Labrador Pooled Pension Fund
Supreme Court of Newfoundland and Labrador

APPENDIX II

CROWN ENTITY FINANCIAL STATEMENTS

AUDITED BY PRIVATE SECTOR AUDITORS

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Atlantic Lottery Corporation, Inc.
Board of Commissioners of Public Utilities
Canada-Newfoundland and Labrador Offshore Petroleum Board
Central Regional Health Authority
Chicken Farmers of Newfoundland and Labrador
College of the North Atlantic
Conseil scolaire francophone provincial de Terre-Neuve-et-Labrador
Credit Union Deposit Guarantee Corporation
Dairy Farmers of Newfoundland and Labrador
Eastern Regional Health Authority
Egg Farmers of Newfoundland and Labrador
Labrador – Grenfell Regional Health Authority
Marble Mountain Development Corporation
Memorial University of Newfoundland
Memorial University of Newfoundland - Pension Plan
Multi-Materials Stewardship Board
Municipal Assessment Agency Inc.
Nalcor Energy
Newfoundland and Labrador 911 Bureau Inc.
Newfoundland and Labrador Centre for Health Information
Newfoundland and Labrador English School District
Newfoundland and Labrador Film Development Corporation
Newfoundland and Labrador Liquor Corporation
Newfoundland and Labrador Sports Centre Inc.
Newfoundland Hardwoods Limited
Newfoundland Ocean Enterprises Limited
Western Regional Health Authority
Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador