OFFICE OF THE AUDITOR GENERAL



Report to the House of Assembly on the Business Plan

For the Year Ended March 31, 2017

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.

Office Location

7 Pippy Place
St. John's
Newfoundland and Labrador
Canada
A1B 3X2

Mailing Address

P.O. Box 8700
St. John's
Newfoundland and Labrador
Canada
A1B 4J6
Telephone: (709) 729-2700
Email: oagmail@oag.nl.ca
Website: www.ag.gov.nl.ca/ag

AUDITOR GENERAL
of Newfoundland and Labrador

September 29, 2017

The Honourable Perry Trimper, 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, 2017.

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, 2017, and is the third 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 2016-17: 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, 2014 – 2017*. 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

7 Pippy Place, St. John's, Box 8700 ♦ St. John's, NL ♦ A1B 4J6 ♦ (709) 729-2700 **Email: terrypaddon@oag.nl.ca**

Table of Contents

Chapter		Page
1	**Overview**	1
2	**Highlights and Accomplishments**	
2.1	Distribution of Audit Work	7
2.2	Reports issued to the House of Assembly	7
2.3	Financial Statement Attest Audits	8
2.4	Canadian Council of Legislative Auditors	8
2.5	Professional Development	8
2.6	Peer Review	9
2.7	External Practice Inspection	9
3	**Performance**	
	Update on Progress Related to Strategic Issues, Goals and Objectives	
3.1	Issue #1: Performance Audit Methodology	11
3.2	Issue #2: Timeliness of Financial Statement Audits	13
3.3	Issue #3: Employee Performance Management	16
4	**Opportunities and Challenges Ahead**	
4.1	Amendments Required to the *Auditor General Act*	19
4.2	Office Resource Management	19
4.3	Amendments to the *Financial Administration Act*	19
4.4	Performance Audits	20
4.5	Financial Statement Audit Methodology	20
4.6	Professional Development	20
4.7	Peer Review	20
5	**Financial Information**	21
Appendices		
I:	Financial Statements Audited by the Office of the Auditor General	31
II:	Crown Entity Financial Statements Audited by Private Sector Auditors	33

Table of Contents

CHAPTER 1
OVERVIEW

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 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.

1.5 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 of 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 Audits 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.

1.6 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

1.7 Staff

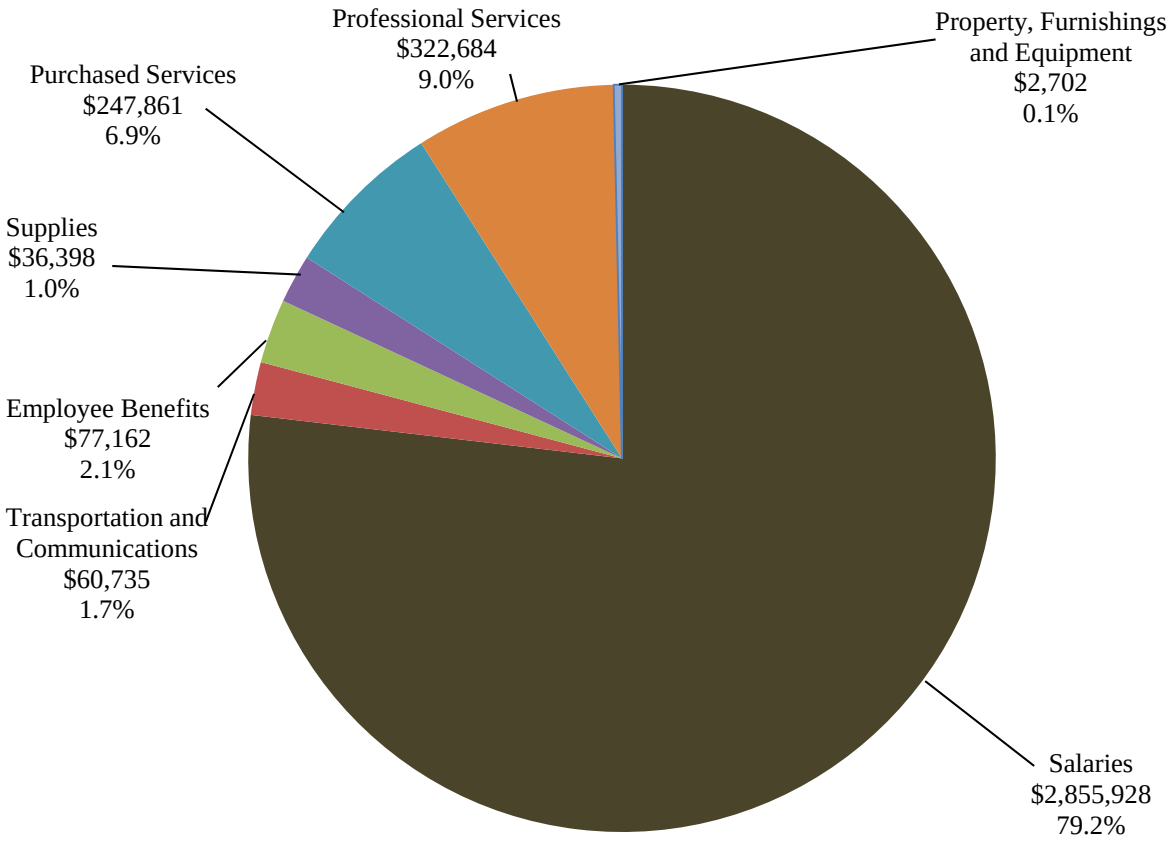
As at March 31, 2017, the Office employed 40 staff (19 male, 21 female) with 36 staff (17 male, 19 female) located at our St. John's office and the remaining 4 staff (2 male, 2 female) located at our Corner Brook office.

1.8 Expenditures

Figure 1 provides details on the $3,603,470 in gross expenditures (excluding statutory salaries of $185,121) incurred by the Office for the year ended March 31, 2017.

Figure 1

Gross Expenditures of the Office of the Auditor General
For the Fiscal Year Ended March 31, 2017



Total Expenditure: $ 3,603,470

Approximately 86% 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

Following is a summary of key highlights and accomplishments for our Office during the fiscal year ending March 31, 2017.

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, 2017

	BUDGET		ACTUAL	
	Hours	**%**	**Hours**	**%**
Financial Statement Audit of the Province	5,555	17.8	8,830	26.3
Financial Statement Audits of Crown Agencies	7,615	24.4	9,301	27.7
Performance Audits	14,500	46.4	9,786	29.2
Special Projects	3,550	11.4	5,635	16.8
TOTAL	31,220	100	33,552	100

2.2 Reports issued to the House of Assembly

During 2016-17, the Office issued five reports to the House of Assembly:

- A report to the House of Assembly on our *Update on Recommendations from the 2012 Annual Report* was submitted to the Speaker of the House of Assembly and released publicly on May 12, 2016. That report included an update on the status of the implementation of the 105 recommendations from the 2012 Annual Report.

- A joint audit of the Atlantic Lottery Corporation was undertaken by the Auditors General of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. A report on the results of the joint audit was submitted to the Speaker of the House of Assembly and released publicly on October 26, 2016.

- The Office completed the audit of the Public Accounts of the Province for the year ended March 31, 2016. 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 and released publicly on November 8, 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 *Performance Audits of Departments and Crown Agencies* was submitted to the Speaker of the House of Assembly and released publicly on November 10, 2016. That report included 7 separate performance audits undertaken by the Office during the year.

- On May 29, 2016, the Lieutenant-Governor in Council, under Section 16.(1) of the *Auditor General Act*, requested that the Auditor General inquire into and report on the appropriateness of the severance benefits received by Mr. Edmund J. Martin upon his cessation of employment as Chief Executive Officer of Nalcor Energy. The report resulting from this review was presented to the Minister of Finance on February 20, 2017.

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, financial statement audits, performance audits or human resources. The Office has membership on most CCOLA committees and groups. During 2016-17, 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 report writing, evidence gathering and public sector accounting standards along with ongoing coaching in leadership.

2.6 Peer Review

During 2016-17, 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. During the same period, the Office also performed a peer review of a performance audit file for another legislative audit office.

2.7 External Practice Inspection

During 2016-17, the Office participated in the Association of Chartered Professional Accountants of Newfoundland and Labrador (CPANL) 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 CPANL 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 were reviewed by the Practice Inspection Committee of CPANL 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 the practice inspection.

CHAPTER 3
PERFORMANCE

In 2014, a 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 2016-17.

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. Our Office conducts audits with emphasis on whether Government is achieving value-for-money in the delivery of public services, and the management of public money and other resources with due regard for economy and efficiency, and effectiveness. Our performance audit methodology has been revised to incorporate value-for-money concepts to accommodate our emphasis in this area.

Update on Overall Progress for the 2014-17 Business Plan Period

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

Indicators: Audit assurances provided by the Office of the Auditor General assess the economy, efficiency and effectiveness in Government's delivery of its various programs

Staff trained, as required, in value-for-money auditing techniques and procedures

Select components of the performance audit methodology are evaluated and where necessary, adjustments are made to ensure value-for-money audit assurances can be provided

Results: As at March 31, 2017, the Office had implemented a performance audit methodology that incorporated value-for-money. The methodology is designed to assess the economy, efficiency and effectiveness in Government's delivery of its various programs and complies with assurance standards established by the Chartered Professional Accountants of Canada. Also, staff have been provided with appropriate training to complete value-for-money audits. The Office evaluates its performance audit methodology through its system of quality control. This evaluation identifies opportunities for improvement to the methodology to ensure that the Office complies with assurance standards established by the Chartered Professional Accountants of Canada.

Update on Progress for the year ended 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.

Performance Audit Methodology			
	Planned Performance for 2016-17	**Actual Performance for 2016-17**	**Explanation of Variance (if applicable)**
1	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.	During 2016-17, the Office completed the third phase of its implementation plan. In November 2016, the Office issued a report on several performance audits which were completed using an audit methodology which incorporates value-for-money concepts in all three phases - planning, examination, and reporting. The report provided an audit level of assurance. A system of quality control for performance audits has been established.	N/A
2	Identified ongoing training requirements to ensure staff continued to receive the appropriate training.	During 2016-17, The Office offered two training sessions to its staff. The first session focused on effective report writing, while the second session related to evidence gathering, which emphasized the examination and reporting phases of performance audits.	N/A
3	Inspected completed performance audit files to evaluate whether the new methodology had been implemented as intended.	During 2016-17, we examined selected elements of our performance audit files to evaluate whether the audits were completed in accordance with assurance standards established by the Chartered Professional Accountants of Canada.	N/A

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 consulted with Government and reviewed 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 consulted with Crown agencies and reviewed our audit approach to identify opportunities to improve the timeliness of the audits of their financial statements.

Update on Overall Progress for the 2014-17 Business Plan Period

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

Indicators: Improved timelines for completing financial statement audits, as compared to 2012/13 baseline

Staff trained in the new/revised audit methodologies

Effectiveness of new/revised audit methodologies evaluated

Results: As at March 31, 2017, the Office has improved the timeline for completing the audit of the Province's financial statements. However, the timelines for completing the audits of financial statements of Crown Agencies has generally not improved. The Office has provided training to staff in the new/revised audit methodologies as well as training related to Public Sector Accounting Standards and Canadian Auditing Standards. The Office has evaluated the effectiveness of the new methodologies. We have determined that the new methodologies are effectively designed to improve the timelines for completing financial statement audits. However, the timelines for completing the audits of the financial statements of Crown agencies generally did not improve because of commitments related to our other legislative responsibilities, auditee readiness, and reduced resource availability.

Update on Progress for the year ended March 31, 2017

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.

Timeliness of Financial Statement Audits			
	Planned Performance for 2016-17	**Actual Performance for 2016-17**	**Explanation of Variance (if applicable)**
1	Evaluated the effectiveness of any new/revised audit methodologies which had been implemented.	During 2016-17, the Office implemented new/revised audit methodologies designed to improve the timelines for completing financial statement audits. This involved revising certain procedures related to the audit of the Province's financial statements. It also involved performing certain audit procedures related to the audit of the Province's financial statements earlier in the audit process. These actions have resulted in improved timelines for the completion of the audit of the Province's financial statements.	N/A
2	Identified ongoing training requirements to ensure staff received the appropriate training.	During 2016-17, the Office identified relevant training requirements for staff through discussions with staff and inspections of files related to completed audit engagements. All staff were provided with training related to 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

Timeliness of Financial Statement Audits			
	Planned Performance for 2016-17	**Actual Performance for 2016-17**	**Explanation of Variance (if applicable)**
3	Evaluated the Office's financial statement attest audit practice to identify opportunities to improve the timelines for completing financial statement audits.	The Office has always been committed to completing audits of financial statements such that all auditees meet their statutory requirements. During 2016-17, 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. In particular, we identified more opportunities to complete certain audit procedures related to the audit of the financial statements of the Province earlier, allowing for an earlier completion date. As a result of the monitoring process, it was determined that the new methodologies were implemented as intended, particularly for the audit of the Province's financial statements. However, except for the audit of the Province's financial statements, 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 for audit, and reduced resource availability.	N/A

Timeliness of Financial Statement Audits			
	Planned Performance for 2016-17	**Actual Performance for 2016-17**	**Explanation of Variance (if applicable)**
		For the year ended March 31, 2016, 4 out of 24 entities were issued an audit opinion within three months of the entities' year ends. However, all entities, except for one, were issued an audit opinion within their respective statutory deadline. This entity was not issued an audit opinion within its statutory deadline due to its readiness for audit.	

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 are still developing 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.

Update on Overall Progress for the 2014-17 Business Plan Period

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.

Indicators: Improved communication of employee performance expectations and key messages needed for employees to meet those expectations

Alignment of training needs with skill capacity gaps

Results: As at March 31, 2017, the Office had not implemented a methodology to evaluate employee's performance. Templates for performance evaluation have been substantially completed. Implementation is scheduled for 2017-18. The Office recognizes the importance of an employee performance management program to the professional development of staff and delivery of our mandate.

Update on Progress for the year ended March 31, 2017

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

Employee Performance Management			
	Planned Performance for 2016-17	**Actual Performance for 2016-17**	**Explanation of Variance (if applicable)**
1	An employee performance management program will have been developed.	During 2016-17, the Office completed the development of a template to evaluate the performance of Audit Managers. We also substantially completed a template to evaluate the performance of auditors in charge. These templates will be implemented in summer 2017.	Implementation of the employee performance management program is scheduled for summer 2017.
2	Employee performance evaluated using the employee performance management program.	The employee performance management program has not been implemented.	See above.
3	The Office provided guidance to staff regarding the operation of the program.	The employee performance management program has not been implemented.	See above.

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, 2018 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 2017-18, 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 Amendments to the *Financial Administration Act*

Amendments to the *Financial Administration Act* in March 2017 require the Province's financial statements (the Public Accounts) to be submitted to the House of Assembly earlier, resulting in a shorter time period to complete the audit of the Public Accounts. The Office is already challenged to match available resources with scheduled attest audits. The Office will work with the Office of the Comptroller General and review its own internal practices to find alternatives to ensure that the audit of the Public Accounts is completed within the shorter time period. Previously, the Public Accounts were required to be submitted by January 31 in the following fiscal year. Now the Public Accounts are required to be submitted before November 1 in the following fiscal year. Furthermore, in a year of a general election, the Public Accounts are required to be submitted no less than 15 days before the date fixed for the general election.

4.4 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 new standard. The Office is currently revising our methodology to comply with this standard.

4.5 Financial Statement Audit Methodology

During 2017-18, the Chartered Professional Accountants of Canada are issuing a revised methodology for completing financial statement attest audits. The Office will be reviewing the impact of this revised methodology on our audit processes.

4.6 Professional Development

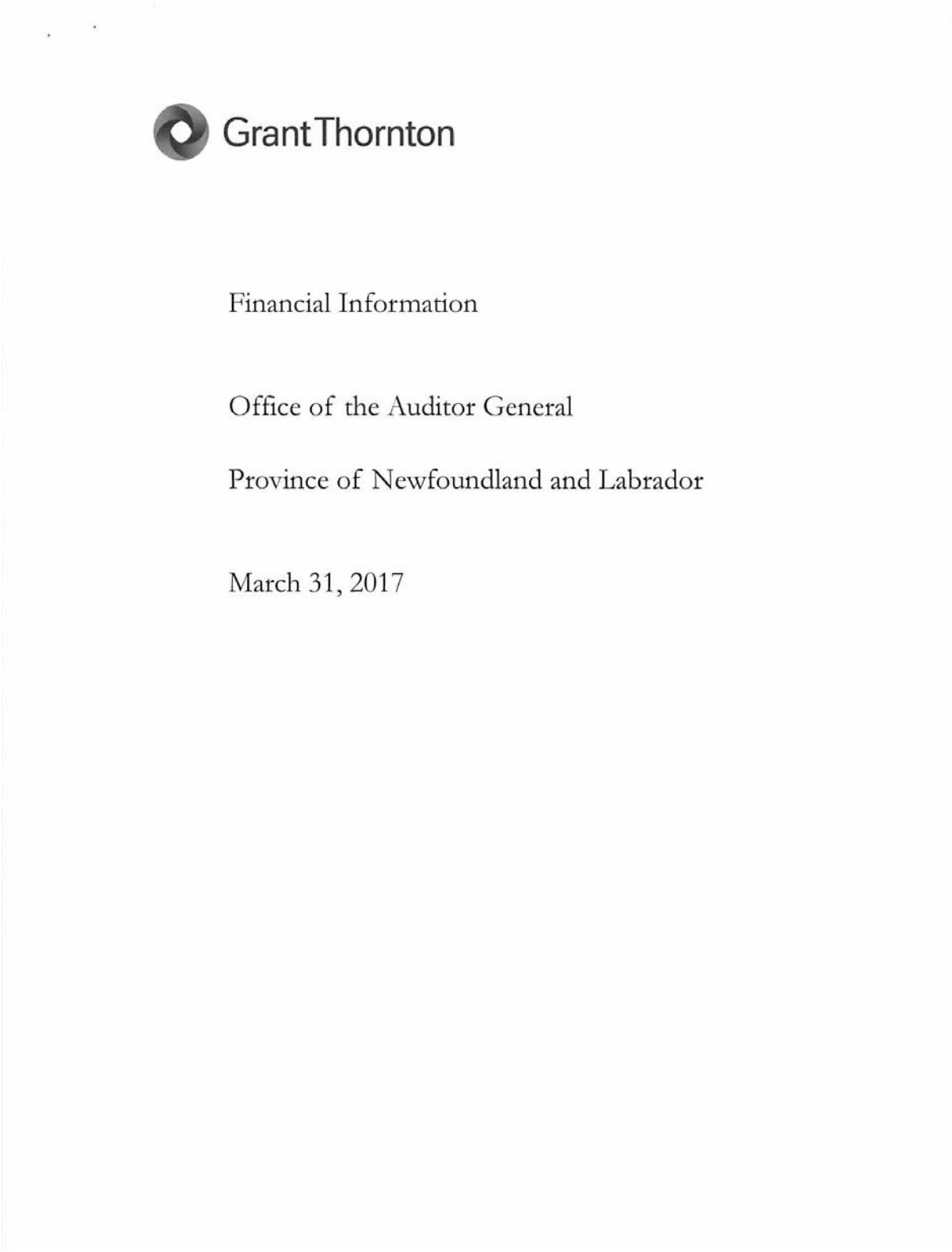
The Office is committed to ensuring that all staff are equipped with the proper skill set to complete the work assigned. The challenge is to provide the appropriate soft skills as well as the technical training required. The Office will look for opportunities to provide the required training through 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.

4.7 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 2017-18, 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 2017-18, our Office has committed to perform a peer review of a performance audit file for another legislative audit office. 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

This section includes the audited financial statements of the Office for the year ended March 31, 2017.



Grant Thornton

Financial Information

Office of the Auditor General

Province of Newfoundland and Labrador

March 31, 2017

Contents

	Page
Independent Auditors' Report	1-2
Supplementary Financial Information	3
Schedule of Expenditures	4
Schedule of Gross Expenditures and Unexpended Balances	5
Notes to the Financial Information	6-7



Independent auditors' report

Grant Thornton LLP
Suite 300
15 International Place
St. John's, NL
A1A 0L4

T +1 709 778 8800
F +1 709 722 7892
www.GrantThornton.ca

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, 2017, the schedule of expenditures 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.

Audit • Tax • Advisory
Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd

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, 2017, 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 30, 2017

Chartered Professional Accountants

Audit • Tax • Advisory
Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd

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

Year Ended March 31

	2017	2016
Assets		
Current		
Accountable advance	$ 700	$ 700
Prepaids	16,584	16,228
	$ 17,284	$ 16,928
Liabilities		
Current		
Accrued paid/annual leave	$ 896,613	$ 1,025,974
Accrued payroll	86,859	72,559
Accrued overtime	-	148
Accrued severance pay	427,659	492,835
	$ 1,411,131	$ 1,591,516

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

Year Ended March 31	2017 Actual	2017 Original Budget	2016 Actual
Executive Support			
Salaries	$ 282,676	$ 236,800	$ 236,194
Salaries (statutory)	185,121	178,300	183,726
Employee benefits	6,498	5,000	3,455
Transportation and communications	12,825	15,200	15,226
Purchased services	-	1,000	-
	$ 487,120	$ 436,300	$ 438,601
Administrative Support			
Salaries	$ 186,264	$ 215,100	$ 283,793
Employee benefits	133	8,500	-
Transportation and communications	17,104	28,500	23,018
Supplies	36,398	64,400	53,822
Purchased services	247,861	265,800	230,562
Property, furnishings and equipment	2,702	21,100	32,786
	$ 490,462	$ 603,400	$ 623,981
Audit Operations			
Salaries	$ 2,386,988	$ 2,604,600	$ 2,252,811
Employee benefits	70,531	81,300	94,254
Transportation and communications	30,806	68,500	49,935
Professional services	322,684	99,000	106,740
	$ 2,811,009	$ 2,853,400	$ 2,503,740
Net expenditures	$ 3,788,591	$ 3,893,100	$ 3,566,322

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	2017	2016
Original budget estimates (net)	$ 3,893,100	$ 3,958,900
Less: estimated statutory payments	(178,300)	(177,100)
Total appropriation	3,714,800	3,781,800
Total net expenditure	3,788,591	3,566,322
Less: statutory payments	(185,121)	(183,726)
Total gross expenditure (budgetary, non-statutory)	3,603,470	3,382,596
Unexpended balance of appropriation	$ 111,330	$ 399,204

See accompanying notes to the financial information.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2017

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 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. 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

Effective April 1, 2015, the Office of the Auditor General no longer invoices for its audit services.

Office of the Auditor General
Province of Newfoundland and Labrador
Notes to the Financial Information
March 31, 2017

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. 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 five years as follows: 2018 - $219,813; 2019 - $207,663; 2020 - $173,672; 2021 - $3,714; and 2022 - $1,548.

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

APPENDIX I

FINANCIAL STATEMENTS

AUDITED BY THE OFFICE OF THE AUDITOR GENERAL

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

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