

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario is committed to promoting accountability, economy, efficiency, and effectiveness in government and broader public-sector operations for the benefit of the citizens of Ontario. The Office provides objective information and advice to the Legislative Assembly of Ontario on the results of our independent value-for-money and financial audits and reviews. In so doing, the Office assists the Assembly in holding the government, its administrators, and grant recipients accountable for the quality of their stewardship of public funds and for the achievement of value for money in the delivery of services to the public. The work of the Office is performed under the authority of the *Auditor General Act*.

Auditor General Act

The *Auditor General Act* came about with the passage on November 22, 2004, of Bill 18, the *Audit Statute Law Amendment Act*, which received Royal Assent on November 30, 2004. The purpose of Bill 18 was to make certain amendments to the *Auditor General Act* to enhance the ability of the Office to serve the Legislative Assembly. The most significant amendment contained in Bill 18 was the expansion of the Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants.

The effective date of the expanded value-for-money audit mandate was April 1, 2005. Since this date fell in the middle of our previous year's audit cycle and was not retroactive to cover grants provided before November 30, 2004, the earliest we could perform any value-for-money audits related to our expanded audit mandate was during our 2005/06 audit cycle. Accordingly, the results of our initial value-for-money work related to the expanded mandate are included in this *2006 Annual Report*.

Appointment of Auditor General

The Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on and with the advice of the Executive Council (the Cabinet). The appointment is made “on the address of the Assembly,” meaning that the appointee must be approved by the Legislative Assembly. The *Auditor General Act* also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter 8).

Independence

The Auditor General and staff of the Office are independent of the government and its administration. This independence is an essential safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy—an all-party legislative committee that is independent of the government’s administrative process—reviews and approves the Office’s budget, which is subsequently laid before the Legislative Assembly. As required by the *Auditor General Act*, the Office’s expenditures relating to the 2005/06 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office are submitted to the Board and are subsequently required to be tabled in the Legislative Assembly. The audited statements and related discussion of results are presented at the end of this chapter.

Audit Responsibilities

We audit the financial statements of the province and the accounts of many agencies of the Crown. However, most of our work relates to our value-for-money audits of the administration of government programs, including broader public-sector activities involving government grants and carried out under government policies and legislation. Our responsibilities are set out in the *Auditor General Act (Act)*, which is reproduced in Exhibit 4.

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Auditor General should not be deferred until the Annual Report. We also assist and advise

the Standing Committee on Public Accounts in its review of the Office’s Annual Report.

It should be noted that our audit activities include examining the actual administration and execution of the government’s policy decisions as carried out by management. However, the Office does not comment on the merits of government policy, since the government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

We are entitled to have access to all relevant information and records necessary to the performance of our duties under the Act. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access virtually all other information contained in Cabinet submissions or decisions that we deem necessary to fulfill our auditing and reporting responsibilities under the Act.

ONTARIO’S CONSOLIDATED FINANCIAL STATEMENTS AND PROGRAMS/ ACTIVITIES FUNDED BY TAXPAYERS

The Auditor General, under subsection 9(1) of the Act, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, whether held in trust or otherwise. To this end, and in accordance with subsection 12(3), the Office carries out an annual attest audit to enable the Auditor General to express an opinion on whether the province’s consolidated financial statements are fairly presented. As well, the Office carries out cyclical value-for-money audits of programs and activities funded by taxpayers (see the “Value-for-money Audits” and “Attest Audits” sections later in this chapter for details on these two types of audits).

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Auditor General, under subsection 9(2) of the Act, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 1, Part 1 lists the agencies that were audited during the 2005/06 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of a number of these agencies on the Office's behalf.

Exhibit 1, Part 2 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2005/06 audit year. Subsection 9(2) of the Act requires that public accounting firms that are appointed auditors of certain agencies of the Crown perform their audits under the direction of the Auditor General and report their results to the Auditor General. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (contained in a management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the Act, the Auditor General may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires that the Auditor General undertake special assignments requested by the Assembly, by the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor General's other duties. The Auditor General can decline an assignment referred by a minister if, in his or her opinion, it conflicts with other duties.

During the period of audit activity covered by this Annual Report (October 2005 to September 2006), the Office was involved in the following assignment under section 17: the Ministry of Energy requested that the Auditor General review the refurbishment agreement for the Bruce A nuclear facility. It is expected that the report on the review will be transmitted to the Minister of Energy in fall 2006.

Audit Activities

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. The following are brief descriptions of each of these audit types.

Value-for-money Audits

Subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the *Auditor General Act* (Act) require that the Auditor General report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of programs. In other words, our value-for-money work assesses the administration of programs, activities, and systems by management, including major information systems. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs and, starting in the 2005/06 audit year, the mandate also includes value-for-money audits of selected grant recipients' activities. We refer to the government bodies and publicly funded entities that we audit as our auditees. Value-for-money audits constitute about two-thirds of the work of the Office.

The results of our value-for-money audits performed between October 2005 and September 2006 are reflected in Chapter 3.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the auditee's management. However, the Office is responsible for reporting instances where it has noted that the auditee has not carried out these functions satisfactorily.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ adequate processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. Some of these processes and the degree of assurance they enable us to provide are described below.

Selection of Programs and Activities for Audit

Major programs and activities administered by a ministry, an agency, a corporation, or a grant-recipient organization are audited at approximately five-to-seven-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include the results of previous audits and related follow-ups; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; recent significant changes in program operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a

preliminary survey of the auditee and its programs and activities.

We also consider the work completed or planned by the auditee's internal auditors. The relevance, timeliness, and breadth of scope of work done by internal audit can have an impact on the timing, frequency, and extent of our audits. By having access to internal-audit work plans, working papers, and reports, and by relying, to the extent possible, on internal-audit activities, the Office is able to avoid duplication of effort.

Objectives and Assurance Levels

The objective of our value-for-money work is to meet the requirements of subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the Act by identifying and reporting significant value-for-money issues. We also include in our reports recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to our recommendations are included in our reports.

The specific objective(s) for each audit or review conducted are clearly stated in the "Audit Objective(s) and Scope" section of each audit report—that is, each value-for-money section of Chapter 3.

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by interviewing management and analyzing the information it provides; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance is the highest reasonable level of assurance that the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including the limitations of testing as a means of

gathering information from which to draw conclusions; the inherent limitations of control systems (for example, management/staff often have some ability to circumvent the controls over a process or procedure); the fact that much of the evidence available for concluding on our objectives is persuasive rather than conclusive in nature; and the need to exercise professional judgment in, for example, interpreting information.

Infrequently, for reasons such as the nature of the program or activity, limitations in the Act, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information it provides; and only limited examination and testing of systems, procedures, and transactions.

Criteria

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations are made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by extensively researching sources such as recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with the senior management responsible for the program or activity at the planning stage of the audit or review.

Communication with Senior Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the audit or review. Before beginning the work, our staff meet with management to discuss the objective(s) and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with senior management. Management provides written responses to our recommendations, and these are discussed and incorporated into the final draft report. The Auditor General finalizes the draft report (on which the Chapter 3 section of the Annual Report will be based) with the deputy minister or head of the agency, corporation, or grant-recipient organization responsible, after which the report is published in the Annual Report.

Attest Audits

Attest (financial statement) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity, as reflected in its financial statements, have been fairly presented in compliance with appropriate accounting policies, which in most cases are Canadian generally accepted accounting principles. The Office conducts attest audits of the consolidated financial statements of the province and of numerous Crown agencies on an annual basis.

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s)

responsible. Our Office also provides copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, discussed with the agency's audit committee and issued to the agency head.

Compliance Audits

Subsection 12(2) of the Act also requires that the Auditor General report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs, activities, agencies, corporations, or grant-recipient organizations being examined or that the management is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable

assurance that management has complied with legislation and authorities in all significant respects.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the Act, the Auditor General has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Auditor General normally reports to the authority that initiated the assignment.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the Act, are not required to be laid before the Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our reports and audit working papers, which include all information obtained during the course of an audit from the auditee, cannot be accessed from our Office, thus further ensuring confidentiality.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code

provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations. All employees are required to complete an annual conflict-of-interest declaration.

Office Organization and Personnel

The Office is organized into portfolio teams—a framework that attempts to align related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government's own ministry organization, are each headed by a Director, who oversees and is responsible for the audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see Figure 1).

The Auditor General, the Deputy Auditor General, the Directors, and the Manager of Human Resources make up the Office's Senior Management Committee.

Canadian Council of Legislative Auditors

This year, Prince Edward Island hosted the 34th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Charlottetown, PEI, from September 10–12, 2006. This annual gathering has, for a number of years, been jointly held with the annual conference of the Canadian Council of Public Accounts Committees. It brings together legislative auditors and members of the Standing

Committees on Public Accounts from the federal government and the provinces/territories and provides a useful forum for sharing ideas and exchanging information.

International Exchanges

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences with them. During the audit year covered by this report, the Office received delegations of legislators/parliamentarians and auditors from Vietnam, Russia, Singapore, and the state of Victoria, Australia.

The Auditor General and the Chair of the Standing Committee on Public accounts were also invited to Russia in June 2005 to provide advice to several Russian state Auditor General offices and legislators on value-for-money auditing and the role of Ontario's Public Accounts Committee. The costs of this visit were funded by the Canadian and Russian governments.

Financial Accountability

The following highlights and financial statements outline the Office's financial results for the 2005/06 fiscal year.

FINANCIAL HIGHLIGHTS

The 2005/06 fiscal year was the first year that we were able to take advantage of our expanded value-for-money audit mandate under the *Auditor General Act* (Act) and our new responsibilities under

Figure 1: Office Organization, September 30, 2006

Auditor General Jim McCarter	Human Resources Annemarie Wiebe, Manager	Operations John Sciarra, Director
Deputy Auditor General Gary Peall	Professional Practices David Lee, Manager	Administration Shanta Persaud, Financial and Administrative Services Maureen Bissonnette, Accounts Payable Clerk Nicole Dirickx, Bilingual Receptionist Sohani Myers, Administrative Clerk Christine Wu, Administrative Assistant
	Research Mark Hancock Michael Radford	Communications and Government Advertising Review Andréa Vanasse, Manager of Corporate Communications and Government Advertising Review Tiina Randoja, Editorial and Communications Co-ordinator Mariana Green, Desktop Publisher/Internet Communications Assistant
		Information Technology Peter Lee, Systems Specialist Shams Ali, Systems Officer

Audit Portfolios and Staff

Health Rudolph Chiu, Director Denise Young, Manager Sandy Chan Oscar Rodriguez Pasha Sidhu Celia Yeung Gigi Yip	Transportation, Infrastructure, and Municipal Affairs Andrew Cheung, Director Gus Chagani, Manager Teresa Carello Kim Cho Fiona Mak Alexander Truong	Crown Agencies John McDowell, Director Walter Allan Tom Chatzidimos Jasmine Chen Mary Romano
Education and Training Nick Mishchenko, Director Michael Brennan, Manager Fraser Rogers, Manager Ariane Chan Zahra Jaffer Mythili Kandasamy Emanuel Tsikritsis Dora Ulisse Brian Wanchuk Oksana Wasylyk	Community and Social Services, and Revenue Walter Bordne, Director Wendy Cumbo, Manager Johan Boer Constantino De Sousa Isabella Ho Maria Molotkova Angela Schieda Aldora Sequeira Nick Stavropoulos	Health and Long-Term Care Facilities Susan Klein, Director Laura Bell, Manager Naomi Herberg, Manager John Landerkin, Manager Kevin Aro Sally Chang Ted D'Agostino Veronica Ho Gloria Tsang
Public Accounts, Finance, and Information Technology Paul Amodeo, Director Rita Mok, Manager Bill Pelow, Manager Suzanna Chan Cherry Chau Chia-Ming Chou Marcia DeSouza Jindong Fu Ben Lau Gawah Mark Lukasz Markowski Ruchir Patel Gajalini Ramachandran	Economic Development, Environment, and Natural Resources Gerard Fitzmaurice, Director Vanna Gotsis, Manager Tony Tersigni, Manager Izabela Beben Tino Bove Mark Burnes Jason Hung Roger Munroe Catherine Porter Mark Smith Ellen Tepelenas	Justice and Regulatory Vince Mazzone, Director Rick MacNeil, Manager Howard Davy Kandy Fletcher Linda Fung Rachel Ho Anat Ishai Alfred Kiang Myuran Palasandiran Vivian Sin

the *Government Advertising Act*. However, taking full advantage of our expanded mandate to audit organizations in the broader public sector proved particularly challenging due to continuing difficulties in hiring and retaining experienced staff in the face of high market demand and compensation for professional auditors. Specifically, we continued to be severely constrained by the requirement under the Act to use public-service salary-classification pay levels, which are not competitive for professional auditors in the Greater Toronto Area job market.

Nevertheless, the hard work and dedication of our staff allowed us to conduct the first-ever value-for-money audits in a good cross-section of public-sector entities—school boards, hospitals, colleges, Children’s Aid Societies, Ontario Power Generation, and Hydro One, along with a number of ministry audits and work relating to the Bruce Power Refurbishment Implementation Agreement for the Minister of Energy. As well, we successfully met our attest audit responsibilities, which this year included auditing the first consolidation of school boards, hospitals, and community colleges into the province’s consolidated financial statements.

Figure 2 provides a comparison of our approved budget and expenditures over the last four years. Figure 3 presents the major components of our spending for 2005/06 and shows that 73% of our

spending related to salary and benefit costs for our staff, while services and rent constituted most of the remainder. Contract and agent auditor professional services and professional-accreditation costs are the largest components of the more than 17% we spent on services. The proportions shown in Figure 3 have remained relatively consistent throughout the four-year period.

Our overall expenses increased by 12.1% over last year but were significantly under budget. This continued the historical trend of under-spending our approved budget: over the last decade, the Office has returned \$6.4 million in unspent appropriations, principally because the Office has historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market, given public-service salary ranges. A more detailed discussion of the changes in our expenditures and related challenges follows.

Salaries and Benefits

Expenditures on salaries and benefits have risen only slightly faster than total spending. The 29% increase over the four-year period resulted from a 9% rise in the average number of staff, a significant reduction in the proportion of junior staff relative to more experienced staff to better match

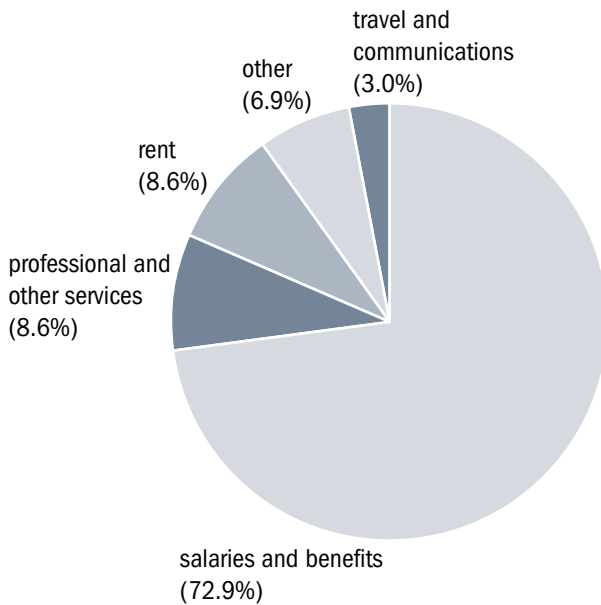
Figure 2: OAGO Four-year Comparison of Spending (Accrual Basis)

Prepared by the Office of the Auditor General of Ontario

	2002/03 (\$ 000)	2003/04 (\$ 000)	2004/05 (\$ 000)	2005/06 (\$ 000)
Approved budget	9,363	9,870	10,914	12,552
Actual spending				
salaries and benefits	6,244	6,943	7,261	8,047
rent	918	914	891	951
professional and other services	654	794	877	951
travel and communications	170	205	290	324
other	665	679	533	767
Total	8,651	9,535	9,852	11,040
Returned to province	684	406	1,201	1,609

Figure 3: OAGO Spending by Major Expenditure Category, 2005/06

Prepared by the Office of the Auditor General of Ontario



experience to the increasing complexity of our work, rising earned but unpaid vacation and severance entitlements, and annual salary and promotional increases in accordance with Ontario Public Service compensation policies.

As Figure 4 shows, there is an increasing gap between the staffing level that we believe we need in order to deliver on our expanded mandate—the level that the Board of Internal Economy has approved—and the actual staff that we have been able to attract and retain. The competition for experienced audit staff has recently become even more challenging because salaries for qualified accountants continue to increase more rapidly than the public-sector salary increases that we are restricted to paying. For example, according to national survey results for the Chartered Accountant (CA) profession reported in October 2005 by the Ontario Institute of Chartered Accountants:

[a]verage compensation for a new CA is \$65,382 but rises steadily each year. It jumps to \$113,140 for CAs with five years

experience as a CA, and to \$250,758 for those who have been a CA for 25–29 years.

The survey also found that for CAs:

the provinces with the highest (average) compensation are Alberta (\$166,373) and Ontario (\$167,807).

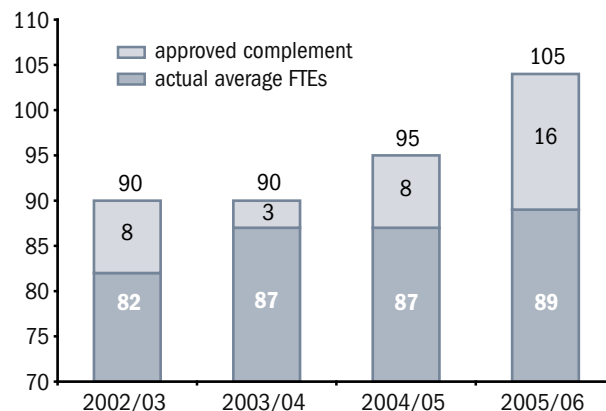
For CAs with more than a couple of years of experience, these salary levels are significantly above what we can offer under existing public-service salary classifications.

Under the *Auditor General Act*, our salary levels must be comparable to the salary ranges of similar positions in the government, and these ranges remain uncompetitive with the salaries that the private sector and the broader public sector can offer for professional accountants. Improving our compensation relative to the market is even more critical if we are to successfully achieve our goals and expectations under our newly expanded mandate.

Benefit costs rose 27% this year with the retroactive adoption of accrual accounting for employees' earned vacation and severance entitlements, as discussed in Note 3 to our financial statements. Recognition of these costs in our financial statements has resulted in an accumulated deficit that will continue to be funded from future voted appropriations as the benefit costs are due. This liability is growing

Figure 4: OAGO Staffing, 2002/03–2005/06

Prepared by the Office of the Auditor General of Ontario



faster than our staffing levels because staffing shortages drive increases in unused vacation entitlements while our more-experienced-staff mix means that an increasing number of our staff qualify to earn these benefits. Also, with the increasing complexity of our work, we have, whenever possible, been employing more experienced staff than in the past. Junior staff constituted about 18% of our staff in 2005/06, down from 29% in 2004/05 and 38% in 2003/04. This shift has increased both average salaries and benefit costs.

Rent

Our accommodation costs have remained relatively stable until 2006, when we added the remaining space on our floor to accommodate the 10% increase in our approved complement. However, these costs continue to decline as a percentage of total spending.

Professional and Other Services

Spending on agent auditors and contract professionals constitutes the largest component of these services, and market conditions have driven up both the cost of acquiring these services and our need for them over the last few years. Since actual staffing has not grown as quickly as planned, we have had to rely increasingly on contracted professionals to supplement our own staff.

Travel and Communications

Although this component constitutes only 3% or less of our total spending, we are encountering

increased costs in this area due to travel relating to our expanded mandate to audit organizations in the broader public sector, the need to provide all travelling staff with secure remote access to Office systems and resources, and the gradual increase in the number of auditors we employ.

Other

Other costs include asset amortization (primarily computers and software), training costs, and statutory expenses. Statutory expenses increased by about \$242,000 over 2004/05 for the following reasons:

- We incurred costs relating to the implementation of our responsibilities under the *Government Advertising Act, 2004*, which was fully proclaimed in January 2006.
- We obtained expert advice and assistance to establish a process and guidance for ministries and advertising firms submitting advertising items and to address issues as they arose.
- We required specialist assistance relating to our review of the Bruce Power Refurbishment Implementation Agreement for the Minister of Energy.
- Since the former Acting Auditor General was officially appointed in December 2004, the 2004/05 statutory expenses included only three and a half months of his salary—but 12 months' salary are included in the 2005/06 expenses.

FINANCIAL STATEMENTS



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General for the year ended March 31, 2006 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian generally accepted accounting principles.

To ensure the integrity and objectivity of the financial data, management maintains a system of internal controls including an appropriate code of conduct and an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded and financial information is reliable and accurate.

The financial statements have been audited by the firm of Allen & Miles LLP, Chartered Accountants. Their report to the Board of Internal Economy, stating the scope of their examination and opinion on the financial statements, appears on the following page.

Jim McCarter, CA
Auditor General

Gary R. Peall, CA
Deputy Auditor General

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AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

We have audited the statement of financial position of the Office of the Auditor General of Ontario as at March 31, 2006 and the statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of the Office of the Auditor General of Ontario. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2006 and the results of its operations and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information is unaudited and not considered as part of the financial statements on which we have expressed our opinion.

A handwritten signature in cursive script that reads "Allen & Miles LLP".

Chartered Accountants

Toronto, Canada
August 3, 2006



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Office of the Auditor General of Ontario

Statement of Financial Position

As at March 31, 2006

	2006 \$	2005 \$ (Restated Note 3)
Assets		
Current		
Cash	175,192	225,864
Due from Consolidated Revenue Fund	526,452	340,368
	<u>701,644</u>	<u>566,232</u>
Capital Assets (Note 4)	555,748	278,435
Total assets	<u>1,257,392</u>	<u>844,667</u>
Current Liabilities		
Accounts payable and accrued liabilities	1,305,644	916,232
Accrued employee benefits obligation [Notes 3 and 5(B)]	1,810,000	1,690,000
	<u>3,115,644</u>	<u>2,606,232</u>
Net assets (Accumulated deficit)		
Investment in capital assets (Note 4)	555,748	278,435
Accumulated deficit [Note 2(B)]	(2,414,000)	(2,040,000)
	<u>(1,858,252)</u>	<u>(1,761,565)</u>
Total liabilities and accumulated deficit	<u>1,257,392</u>	<u>844,667</u>

Commitment (Note 6)

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:



Jim McCarter
Auditor General



Gary Peall
Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit

For the Year Ended March 31, 2006

	2006 Budget \$	2006 Actual \$	2005 Actual \$ (Restated Note 3)
Revenue			
Consolidated Revenue Fund			
Voted appropriation (Note 8)	12,552,200	12,552,200	10,914,000
Less: returned to the Province	—	(1,608,914)	(1,200,536)
Net revenue	12,552,200	10,943,286	9,713,464
Expenses			
Salaries and wages	7,427,300	6,426,221	5,986,968
Employee benefits (Note 5)	1,695,900	1,620,989	1,274,166
Office rent	1,000,000	961,877	891,105
Professional and other services	1,233,300	951,197	877,415
Amortization of capital assets	—	217,047	207,234
Travel and communication	235,100	323,719	289,964
Training and development	207,600	113,555	117,509
Supplies and equipment	428,000	75,621	100,016
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	230,000	233,337	57,352
<i>Government Advertising Act</i>	45,000	66,410	—
Total expenses	12,552,200	11,039,973	9,851,729
Deficiency of revenue over expenses	—	96,687	138,265
Accumulated deficit, beginning of year		1,761,565	1,623,300
Accumulated deficit, end of year		1,858,252	1,761,565

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2006

	2006 \$	2005 \$ (Restated Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenue over expenses	(96,687)	(138,265)
Amortization of capital assets	217,047	207,234
Accrued employee benefits obligation	120,000	149,000
	240,360	217,969
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	(186,084)	159,758
Increase in accounts payable and accrued liabilities	389,412	22,485
	203,328	182,243
Investing activities		
Purchase of capital assets	(494,360)	(196,969)
Net increase (decrease) in cash position	(50,672)	203,243
Cash position, beginning of year	225,864	22,621
Cash position, end of year	175,192	225,864

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General conducts independent audits of government programs, of institutions in the broader public sector that receive government grants, and of the fairness of the financial statements of the Province and numerous agencies of the Crown. In doing so, the Office of the Auditor General promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Auditor General is required to review specified types of advertising, printed matter or reviewable messages proposed by government offices to determine whether they meet the standards required by the Act.

Under both Acts, the Auditor General reports directly to the Legislative Assembly.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(A) ACCRUAL BASIS

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(B) VOTED APPROPRIATIONS

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the approved appropriation was prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of capital assets and the recognition of employee benefit costs earned to date but that will be funded from future appropriations.

(C) CAPITAL ASSETS

Capital assets are recorded at historical cost less accumulated amortization. Amortization of capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	5 years
Leasehold improvements	The remaining term of the lease

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

2. Significant Accounting Policies (Continued)

(D) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Change in Accounting Policy

In prior years, the Office did not record the liabilities pertaining to the legislated severance and unused vacation entitlements components of its future employee benefit costs because these liabilities had been determined and recognized by the Province in its financial statements. While the Province continues to accrue for these costs each year and to fund them when due through the Office's annual appropriations, the Office has decided that it is appropriate to also recognize the liability for these costs in these financial statements. This change in accounting policy was implemented in the current year and has been applied retroactively. The effect of this change is as follows:

	2005	Increase	2005
	Previously	(Decrease)	Restated
	stated		
	\$	\$	\$
Accounts payable	566,232	350,000	916,232
Accrued employee benefits obligation	–	1,690,000	1,690,000
Employee benefit costs	1,146,166	128,000	1,274,166
Deficiency of revenue over expenses	(10,265)	(128,000)	(138,265)
Net assets (accumulated deficit)	278,435	(2,040,000)	(1,761,565)
Net assets (accumulated deficit April 1, 2004)	288,700	(1,912,000)	(1,623,300)

4. Capital Assets

	2006			2005
	Cost	Accumulated	Net Book	Net Book
	\$	Amortization	Value	Value
	\$	\$	\$	\$
Computer hardware	594,666	364,243	230,423	207,179
Computer software	203,616	134,778	68,838	71,256
Furniture and fixtures	176,288	17,629	158,659	–
Leasehold improvements	106,721	8,893	97,828	–
	1,081,291	525,543	555,748	278,435

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

4. Capital Assets (Continued)

Investment in capital assets represents the accumulated cost of capital assets less accumulated amortization and disposals.

5. Obligation For Future Employee Benefits

Although the Office's employees are not members of the Ontario Public Service, under provisions in the *Auditor General Act*, the Office's employees are entitled to the same benefits as Ontario Public Service employees. The future liability for benefits earned by the Office's employees is included in the estimated liability for all provincial employees that have earned these benefits and is recognized in the Province's consolidated financial statements. These benefits are accounted for as follows:

(A) PENSION BENEFITS

The Office provides pension benefits for its full-time employees through participation in the Public Service Pension Fund (PSPF), which is a multi-employer defined benefit plan established by the Province of Ontario. This plan is accounted for as a defined contribution plan as the Office has insufficient information to apply defined benefit plan accounting. The pension expense represents the Office's contributions to the plan for current service of employees during this fiscal year and any additional employer contributions for service relating to prior years. The Office's contributions related to the pension plan for the year were \$497,853 (2005 – \$472,729) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The costs of any legislated severance and unused vacation entitlements earned by employees are recognized when earned by eligible employees. These costs for the year amounted to \$374,000 (2005 – \$128,847) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

(C) OTHER NON-PENSION POST-EMPLOYMENT BENEFITS

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

6. Commitment

The Office has an operating lease to rent premises for an 11-year period, which commenced November 1, 2000. The minimum rental commitment for the remaining term of the lease is as follows:

	\$
2006-07	515,032
2007-08	525,369
2008-09	525,369
2009-10	525,369
2010-11	525,369
2011-12	306,465

7. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of \$100,000 in calendar year 2005.

Name	Position	Salary	Taxable
		\$	Benefits \$
McCarter, Jim	Auditor General	179,432	4,502
Peall, Gary	Deputy Auditor General	132,992	215
Amodeo, Paul	Director	112,609	188
Bordne, Walter	Director	113,793	188
Cheung, Andrew	Director	113,793	188
Fitzmaurice, Gerard	Director	112,609	188
Klein, Susan	Director	103,646	168
McDowell, John	Director	112,609	188
Mishchenko, Nicholas	Director	112,609	188

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2006

8. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the Province's financial statements, under which purchases of computers and software are expensed in the year of acquisition rather than being capitalized and amortized over their useful lives. Volume 1 also excludes the accrued employee future benefit costs recognized in these financial statements as well as in the Province's summary financial statements. A reconciliation of total expenses reported in volume 1 to the total expenses reported in these financial statements is as follows:

	2006 Actual \$	2005 Actual \$ (Restated Note 3)
Total expenses per Public Accounts Volume 1	10,943,286	9,713,464
Less: purchase of capital assets	(494,360)	(196,969)
Add: amortization of capital assets	217,047	207,234
accrued future employee benefit costs	374,000	128,000
Total expenses per audited financial statements	<u>11,039,973</u>	<u>9,851,729</u>

9. Financial Instruments

The carrying amounts of cash, due from Consolidated Revenue Fund and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The fair value of the accrued employee benefits obligation has not been determined. Information regarding this financial instrument is provided in Note 5.