

# The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario (Office) serves the Legislative Assembly and the citizens of Ontario by conducting value-for-money and financial audits and reviews and reporting on them. By doing this, the Office helps the Legislative Assembly hold the government, its administrators, and grant recipients accountable for how prudently they spend public funds and for the value they obtain, on behalf of Ontario taxpayers, for the money spent.

The work of the Office is performed under the authority of the *Auditor General Act*. In addition, under the *Government Advertising Act, 2004*, the Auditor General is responsible for reviewing and deciding whether or not to approve certain types of proposed government advertising (see Chapter 5 for more details on the Office’s advertising review function). Both acts can be found at [www.e-laws.gov.on.ca](http://www.e-laws.gov.on.ca).

that the Office has the authority to conduct value-for-money audits of are:

- Ontario government ministries;
- Crown agencies;
- Crown-controlled corporations; and
- organizations in the broader public sector that receive government grants (for example, agencies that provide mental-health services, children’s aid societies, community colleges, hospitals, long-term-care homes, school boards, and universities).

The *Auditor General Act* (Act) [in subclauses 12(2)(f)(iv) and (v)] identifies the criteria to be considered in this assessment:

- Money should be spent with due regard for economy.
- Money should be spent with due regard for efficiency.
- Appropriate procedures should be in place to measure and report on the effectiveness of programs.

Note that we assess whether or not the *auditee’s* management is evaluating—using appropriate performance measures—the effectiveness of programs and reporting on its findings. It is not part of our mandate to do these things. Rather, our mandate dictates that we report instances where we have noted that the auditee has not satisfactorily done its job in this area.

The Act requires that, if the Auditor General observes instances where the three value-for-money

## General Overview

### VALUE-FOR-MONEY AUDITS IN THE ANNUAL REPORT

About two-thirds of the Office’s work relates to value-for-money auditing. The Office’s value-for-money audits are assessments of how well a given “auditee” (the entity that we audit) manages and administers its programs or activities. The auditees

criteria have not been met, he or she report on them. The Act also requires that he or she report on instances where the following was observed:

- 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;
  - check effectively the assessment, collection, and proper allocation of revenue; or
  - ensure that expenditures were made only as authorized.
- Money was expended other than for the purposes for which it was appropriated.

Assessing the extent to which the auditee was controlling against these risks is technically “compliance” audit work but is generally incorporated into both value-for-money audits and “attest” audits (discussed in a later section). Other compliance work that is typically included in our value-for-money audits is:

- identifying the key provisions in legislation and the authorities that govern the auditee or the auditee’s programs and activities as well as those that the auditee’s management is responsible for administering; and
- performing the tests and procedures we deem necessary to obtain reasonable assurance that the auditee’s management has complied with these key legislation and authority requirements.

Government programs and activities are the result of government policy decisions. Thus, we could say that our value-for-money audits focus on how well management is administering and executing government policy decisions. It is important to note, however, that in doing so we do not comment on the merits of government policy. Rather, it is the Legislative Assembly that holds the government accountable for policy matters. The Legislative Assembly continually monitors and challenges government policies through questions during legisla-

tive sessions and through reviews of legislation and expenditure estimates.

In planning, performing, and reporting on our value-for-money work, we follow the relevant professional standards established by the Canadian Institute of Chartered Accountants. These standards require that we have processes for ensuring the quality, integrity, and value of our work. Some of the processes we use are described below.

## Selecting What to Audit

The Office audits major ministry programs and activities at approximately five- to seven-year intervals. We do not audit organizations in the broader public sector and Crown-controlled corporations on the same cycle because there are such a great number of them and their activities are so numerous and diverse. Since our mandate expanded in 2004 to allow us to audit these auditees, our audits have covered a wide range of topics in several sectors, including health (hospitals, long-term-care homes, and mental-health service providers), education (school boards, universities, and colleges), and social services (Children’s aid societies and social service agencies), as well as several large Crown-controlled corporations.

In selecting what program, activity, or organization to audit each year, we consider how great the risk is that an auditee is not meeting the three value-for-money criteria and therefore incurring potential negative consequences for the public it serves. To help us choose higher-risk audits, we consider factors such as:

- the results of previous audits and related follow-ups;
- the total revenues or expenditures involved;
- the impact of the program, activity, or organization on the public;
- the complexity and diversity of the auditee’s operations;
- recent significant changes in the auditee’s operations; and

- the significance of the issues an audit might identify.

We also consider whether the benefits of conducting the audit justify the costs of the audit.

Another factor we take into account in the selection process is what work the auditee's internal auditors have completed or planned. Depending on what that work consists of, we may defer an audit or change our audit's scope to avoid duplication of effort. In other cases, we do not diminish the scope of our audit but rely on and present the results of internal audit work in our audit report.

### Setting Audit Objectives, Audit Criteria, and Assurance Levels

When we begin an audit, we set an objective for what we want to achieve. We then develop suitable audit criteria that cover the key systems, policies, and procedures that should be in place and operating effectively. Developing criteria involves extensively researching sources such as recognized bodies of experts; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; applicable criteria successfully applied in other audits or reviews; and applicable laws, regulations, and other authorities.

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

The next step is designing and conducting tests and procedures to address our audit objective and criteria, so that we can reach a conclusion regarding our audit objective and make observations and recommendations. Each audit report has a section entitled "Audit Objective and Scope," in which the audit objective is stated.

Conducting tests and procedures to gather information has its limitations. We therefore cannot provide what is called an "absolute level of assurance" that our audit work identifies all significant

matters. Other factors also contribute to this. For example, we may conclude that the auditee had a control system in place for a process or procedure that was working effectively to prevent a particular problem from occurring; but auditee management or staff are often able to circumvent such control systems—so we cannot guarantee that the problem will never arise. Also, much of the evidence available for concluding on our objective is more persuasive than it is conclusive, and we must rely on professional judgment in much of our work—for example, in interpreting information.

For all these reasons, the assurance that we plan for our work to provide is at an "audit level"—the highest reasonable level of assurance that we can obtain using our regular audit procedures. Specifically, 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 because we are examining a highly technical area, obtaining expert assistance and advice.

With respect to the information that management provides, under the Act we are entitled to have access to all relevant information and records necessary to the performance of our duties. Out of respect for the principle of Cabinet privilege, we do 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 responsibilities under the Act.

Infrequently, 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 management provides; and only limited examination and testing of systems, procedures, and transactions. We perform reviews when, for example, providing a higher level of assurance has prohibitive costs, the *Auditor General Act* does not allow for a certain program or activity

to be audited, or other factors relating to the nature of the program or activity make a review more appropriate than an audit.

## Communicating with 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 value-for-money audit or review. Before beginning the work, our staff meet with management to discuss the objective 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 the auditee's senior management. The auditee's management provides written responses to our recommendations, and these are discussed and incorporated into the 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, after which the report is published in the Annual Report.

## SPECIAL REPORTS

As required by the Act, 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 Legislative Assembly at any time, on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report.

Two sections of the Act authorize the Auditor General to undertake additional special work. Under section 16, the Standing Committee on Public Accounts may resolve that the Auditor General must examine and report on any matter respecting the Public Accounts. Under section 17, the Legisla-

tive Assembly, the Standing Committee on Public Accounts, or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes it conflicts with other duties.

In recent years when we have received a special request under section 16 or 17, our normal practice has been to obtain the requester's agreement that the special report will be tabled in the Legislature on completion and made public at that time.

Our audit of eHealth, which began in fall 2008, was originally planned for inclusion in this Annual Report and was part of a collaborative initiative involving several Canadian auditors general to examine spending and progress on eHealth initiatives federally and in several provinces. However, because public concerns were raised about spending and the use of consultants at the eHealth Ontario agency, the Minister of Health and Long-Term Care requested that we expedite our audit and report it separately under section 17 of the Act.

Accordingly, the Auditor General reported the results of the audit of eHealth to the Minister of Health and Long-Term Care and to the Legislature in early fall 2009.

On August 31, 2009, the Minister of Energy and Infrastructure requested the Auditor General to examine expenses incurred by employees of the Ontario Lottery and Gaming Corporation. The results of this audit will similarly be reported to the Minister and to the Legislature on completion.

## ATTEST AUDITS

Attest audits are examinations of an auditee's financial statements. In such audits, the auditor expresses his or her opinion on whether the financial statements present information on the auditee's operations and financial position in a way that is fair and that complies with certain accounting

policies (in most cases, with Canadian generally accepted accounting principles). As mentioned in the overview of value-for-money audits, compliance audit work is often incorporated into attest audit work. Specifically, we assess the controls for managing risks relating to improperly kept accounts; unaccounted-for public money; lack of recordkeeping; inadequate safeguarding of public property; deficient procedures for assessing, collecting, and properly allocating revenue; unauthorized expenditures; and not spending money on what it is intended for.

## The Auditees

Every year, we audit the financial statements of the province and the accounts of many agencies of the Crown. Specifically, the Act [in subsections 9(1), (2), and (3)] requires that:

- the Auditor General audit the accounts and records of the receipt and disbursement of public money forming part of the province's Consolidated Revenue Fund, whether held in trust or otherwise;
- the Auditor General audit the financial statements of those agencies of the Crown that are not audited by another auditor;
- 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; and
- public accounting firms auditing Crown-controlled corporations deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

Chapter 2 discusses this year's attest audit of the province's consolidated financial statements.

We do not discuss the results of attest audits of agency and Crown-controlled corporations in this report. Agency legislation normally stipulates that

the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible for the agency. 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.

Where an agency attest audit notes areas where management must make improvements, the auditor prepares a draft management letter and discusses it with senior management. The letter is revised to reflect the results of that discussion. After the draft management letter is cleared and the agency's senior management responds to it in writing, the auditor prepares a final management letter, which is usually discussed with the agency's audit committee. If a matter were so significant that we felt it should be brought to the attention of the Legislature, we would include it in an annual report.

Exhibit 1, Part 1 lists the agencies that were audited during the 2008/09 audit year. The Office currently contracts with public accounting firms to audit 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 public accounting firms audited during the 2008/09 audit year.

## OTHER STIPULATIONS OF THE 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 *Audit 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. This *2009 Annual Report* marks the fourth year of our expanded audit mandate.

## Appointment of Auditor General

Under the Act, 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 Act also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Legislative Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter 6).

## 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 Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause by the Legislative Assembly. Consequently, the Auditor General maintains an arm’s-length distance from the government and the political parties in the Legislative Assembly and is thus free to fulfill the Office’s legislated mandate without political pressure.

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 Act, the Office’s expenditures relating to the 2008/09 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 subsequently must be tabled in the Legislative Assembly. The audited statements and related discussion of expenditures for the year are presented at the end of this chapter.

## 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 *Auditor General Act*, do not have to be laid before the Legislative Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our draft 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 explains why these expectations exist and further describes the Office’s responsibilities to the Legislative Assembly, the public, and our auditees. 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, Alberta hosted the 37th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Edmonton, from September 13 to 15, 2009. This annual gathering has, for a number of years, been held jointly 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 and territories, and provides a useful forum for sharing ideas and exchanging information.

## International Visitors

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with visitors and 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 met with legislators/public servants/auditors from China, Ghana, Kenya, the Republic of Serbia, and the Russian Federation, as well as a delegation from the Commonwealth nations.

## Results Produced by the Office This Year

The 2008/09 fiscal year was a challenging but successful year for the Office.

In total, we conducted 14 value-for-money and special audits this year, together with a review of the status of the unfunded liability of the Workplace Safety and Insurance Board. Our value-for-money audits examined a wide range of services of importance to Ontarians. They included bridge safety, telehealth, eHealth, consumer protection, research funding, and efforts to measure and raise student literacy and numeracy. We also examined programs that serve some of Ontario's most vulnerable citizens, such as infection control in long-term-care homes, assistive devices, two major income support programs (the Ontario Disability Support Program and Ontario Works), and social housing. Also—for the first time—we looked at the whole issue of government user fees.

Several of the value-for-money audits we carried out this year explored how the province oversees services that it partially pays for but that municipalities provide. The delivery of Ontario Works assistance, the provision and maintenance of social housing, and the safety and maintenance of municipal bridges are examples. Our work in the broader public sector included examining the infection-control practices in three long-term-care homes, visiting several school boards to discuss efforts to improve student achievement by them and the Ministry of Education's Literacy and Numeracy Secretariat, and auditing the administration of student testing conducted by the Education Quality and Accountability Office. We also spoke with several educational institutions about research funding and had discussions with both educational institutions and hospitals on the OntarioBuys program.

As mentioned in the earlier Special Reports section, we issued a special report on Ontario's Electronic Health Records Initiative in early fall 2009.

Figure 1: Office Organization, September 30, 2009

<b>Auditor General</b>	<b>Human Resources</b>	<b>Operations</b>
Jim McCarter	Annemarie Wiebe, Manager Shayna Whiteford	John Sciarra, Director <b>Administration</b> Shanta Persaud Maureen Bissonnette Sohani Myers Christine Wu <b>Communications and Government Advertising Review</b> Andréa Vanasse, Manager Shirley Falkner Mariana Green Tiina Randoja <b>Information Technology</b> Peter Lee Shams Ali
<b>Deputy Auditor General</b>	<b>Professional Practices</b>	
Gary Peall	Michael Brennan, Manager	

**Audit Portfolios and Staff**

<b>Community and Social Services, and Revenue</b>	<b>Crown Agencies</b>	<b>Economic Development, Environment, Natural Resources, and Education and Training</b>
Walter Bordne, Director Wendy Cumbo, Manager Nick Stavropoulos, Manager Vishal Balaria Johan Boer Stephanie Chen Constantino De Sousa Katrina Exaltacion	John McDowell, Director Walter Allan, Manager Tom Chatzidimos Kandy Fletcher Mary Romano Megan Sim	Gerard Fitzmaurice, Director Fraser Rogers, Manager Tony Tersigni, Manager Tino Bove Maggie Dong Zahra Jaffer Mythili Kandasamy Joane Mui Roger Munroe Mark Smith Zhenya Stekovic Ellen Tepelenas Dora Ulisse Brian Wanchuk Jing Wang
<b>Health and Health Promotion</b>	<b>Health and Long-term-care Providers</b>	<b>Justice and Regulatory</b>
Rudolph Chiu, Director Sandy Chan, Manager Denise Young, Manager Ariane Chan Frederick Chan Anita Cheung Suzanne Darmanin Lisa Li	Susan Klein, Director Laura Bell, Manager Vanna Gotsis, Manager Naomi Herberg, Manager Emanuel Tsikritsis, Manager Kevin Aro Matthew Brikis Jennifer Fung Ingrid Goh	Vince Mazzone, Director Rick MacNeil, Manager Vivian Sin, Manager Helen Chow Howard Davy Rashmeet Gill Mark Hancock Alfred Kiang Cynthia Lau Sarah Noble Alice Nowak Ruchir Patel Janet Wan
<b>Public Accounts, Finance, and Information Technology</b>	<b>Transportation, Infrastructure, and Municipal Affairs</b>	
Paul Amodeo, Director Bill Pelow, Manager Tanmay Gupta Shariq Saeed Joyce Yip	Andrew Cheung, Director Teresa Carello, Manager Gus Chagani, Manager Kim Achoy Bartosz Amerski Izabela Beben Kim Cho	Marcia DeSouza Isabella Ho Gajalini Ramachandran Alexander Truong



Our decision to issue this audit report as a special report was prompted by a request by the Minister of Health and Long-term Care under Section 17 of our Act.

As mentioned in the earlier Attest Audits section, we are responsible for auditing the province's consolidated financial statements (further discussed in Chapter 2), as well as the statements of more than 40 Crown agencies. We again met all of our key financial-statement audit deadlines while continuing our investment in training to successfully implement ongoing revisions to accounting and assurance standards and methodology for conducting our financial-statement audits. A practice inspection by the Institute of Chartered Accountants of Ontario confirmed that we were meeting the new standards in all significant respects.

We successfully met our review responsibilities under the *Government Advertising Act, 2004*, as further discussed in Chapter 5.

The results produced by the Office this year would clearly not have been possible without the hard work and dedication of our staff, as well as the assistance of our contract staff and expert advisors. With a number of senior staff retiring or on parental leave, contract staff were particularly important to us this year, and they filled in admirably.

## Financial Accountability

The following discussion and our financial statements outline the Office's financial results for the 2008/09 fiscal year.

Figure 2 provides a comparison of our approved budget and expenditures over the last five years. Figure 3 presents the major components of our spending and shows that nearly 71% (also 71% in 2007/08) related to salary and benefit costs for our staff, while professional and other services and rent comprised most of the remainder. The proportions in Figure 3 have remained relatively constant in recent years, with the possible exception of contracted professional services. These services increased significantly again this year to help us manage the volume, timing, and complexity of our work and to temporarily replace retiring staff and new parents on leave.

Overall, our expenses increased 3.8% (13.8% in 2007/08) and were again significantly under budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling almost \$7.7 million. The main reason for this is that we have historically faced challenges in hiring and retaining qualified professional staff in

**Figure 2: Five-year Comparison of Spending (Accrual Basis) (\$ 000)**

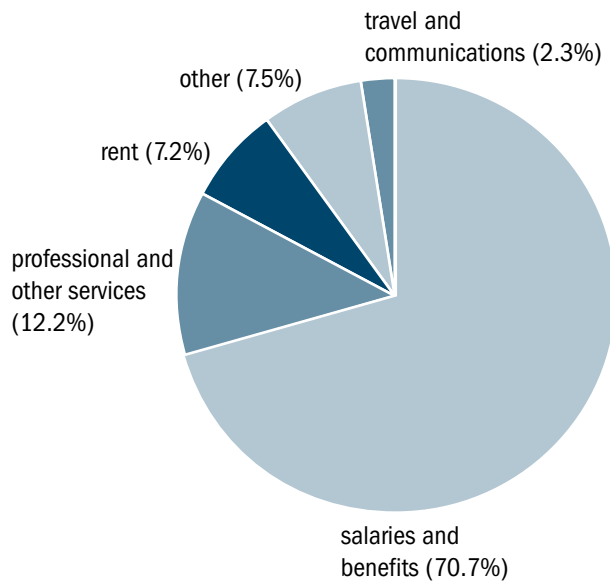
Prepared by the Office of the Auditor General of Ontario

	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Approved budget</b>	<b>10,914</b>	<b>12,552</b>	<b>13,992</b>	<b>15,308</b>	<b>16,245</b>
<b>Actual expenses</b>					
salaries and benefits	7,261	8,047	8,760	9,999	10,279
professional and other services	877	951	1,264	1,525	1,776
rent	891	962	985	1,048	1,051
travel and communications	290	324	363	397	332
other	533	756	930	1,033	1,096
<b>Total</b>	<b>9,852</b>	<b>11,040</b>	<b>12,302</b>	<b>14,002</b>	<b>14,534</b>
<b>Returned to province*</b>	<b>1,201</b>	<b>1,609</b>	<b>1,730</b>	<b>1,608</b>	<b>1,561</b>

\* These amounts are typically slightly higher than the excess of revenue over expenses as a result of non-cash expenses (such as amortization of capital assets).

**Figure 3: Spending by Major Expenditure Category, 2007/08**

Prepared by the Office of the Auditor General of Ontario



the competitive Toronto job market—our public-service salary ranges have simply not kept pace with compensation increases for such professionals in the private sector. A more detailed discussion of the changes in our expenses and some of the challenges we are facing follows.

### SALARIES AND BENEFITS

Our salary and benefit costs rose just 2.8% this year. Salary and performance pay increases (in line with those approved for Ontario public servants), together with benefit cost increases (such as higher pension and health benefit contribution rates), were partially offset by a decrease in the number of staff employed compared to last year and a decrease in our future benefit obligations (owing to the retirement of several senior staff and the payout of our previously expensed obligation in respect of these employees).

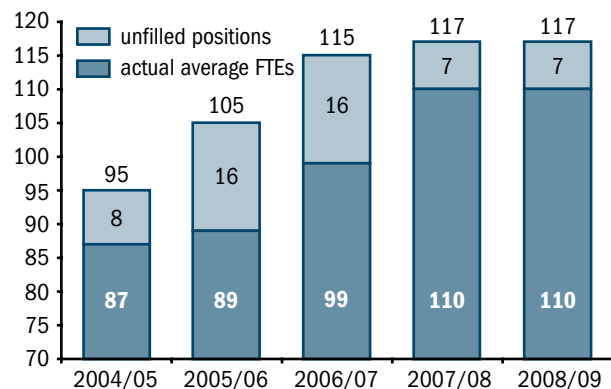
Following a gradual increase in approved complement over the last several years—to 117 from 90 (see Figure 4)—we were able to gradually increase the average number of staff we employ to 110. By

early in the year our staffing actually peaked at 115 but with turnover and retirements declined to just 106 by the end of 2008/09—about the same number we began the previous year with. With the economic uncertainty and need for cost containment through much of this year, we were reluctant to staff up when staff departed and instead made more extensive use of contract professionals. As a result, our average staffing over the course of this year was about the same as last year. However, our hiring continues to be primarily at more junior levels, given that our salaries and benefits are competitive at these levels. We quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is one reason that, as Figure 4 shows, we still have a number of unfilled positions. The growing complexity of our audits demands that we use highly qualified, experienced staff as much as possible. The challenge of maintaining and enhancing our capacity to perform these audits will only increase as more of our most experienced staff retire over the next few years.

Under the Act, our salary levels must be comparable to the salary ranges of similar positions in the government. These ranges remain uncompetitive with the salaries that both the not-for-profit and the private sectors offer. According to the most recent survey by the Canadian Institute of Chartered Accountants published in 2009, average salaries for CAs in government (\$117,700) are 15% lower

**Figure 4: Staffing, 2004/05–2008/09**

Prepared by the Office of the Auditor General of Ontario



than those in the not-for-profit sector (\$138,400) and, most importantly, 27% lower than those working for professional service CA firms (\$160,600), which are our primary competitors for professional accountants. This gap has narrowed only slightly since the previous survey in 2007.

The salaries of our highest-paid staff in the 2008 calendar year are disclosed in Note 6 to our financial statements.

## RENT

Our costs for accommodation were virtually the same as last year, increasing just 0.4% (owing primarily to rising building operating costs, particularly taxes and utilities). Accommodation costs continue to decline as a percentage of total spending.

## PROFESSIONAL AND OTHER SERVICES

These services represent our most significant cost pressure—they have increased \$251,000, or more than 16%, from last year and have more than doubled since 2004/05. The largest component of the increase is the costs for, first, contract professionals, and second, contract CA firms.

We continue to have to rely more on contract professionals to meet our legislated responsibilities. It continues to be difficult for us to reach our approved full complement given our uncompetitive salary levels, more complex work, and tighter deadlines for finalizing the financial-statement audits of Crown agencies and the province. As mentioned earlier, this year we had a number of staff on parental leave, as well as several retirements, which further increased our reliance on contract staff. We also believe that using more contract staff to fill temporary needs is a prudent approach to staffing, particularly during uncertain economic times, in that it provides more flexibility and less disruption if significant in-year cuts to our budget are requested.

We continue to incur higher contract costs for CA firms we work with because of the higher

salaries they pay their staff and the additional hours required to implement ongoing changes to accounting and assurance standards. The full-year impact of the cost of contracting out two additional financial-statement audits last year also contributed to the increase in professional services costs.

## TRAVEL AND COMMUNICATIONS

With less value-for-money audit work in broader-public-sector organizations, particularly hospitals, than last year, our travel costs actually declined by 16% this year. About half of our work last year focused on several different broader-public-sector service providers, including hospitals, children's aid societies, mental-health agencies, and employment agencies. We also did a special audit of AgriCorp in Guelph. Consequently, our travel expenditures were quite high last year. Although we are incurring significantly more travel costs than in the past because of the expansion of our mandate to audit broader-public-sector organizations, this year our audits focused more on ministry oversight of service providers and less on the providers themselves. This means that our teams made shorter visits to service providers. Staff also made greater use of technology to reduce travel requirements and costs.

## OTHER

Other costs include asset amortization, supplies and equipment maintenance, training, and statutory expenses. Such costs increased by \$63,000, or by 6%, over last year. Some of the increase (\$22,000) relates to higher equipment amortization owing to prior investments in computer and leasehold improvements, and a further \$16,000 relates to statutory salary and performance pay increases for the Auditor General that were in line with increases provided to senior deputy ministers in the government. About \$13,000 of the increase relates to higher costs for software support licences and maintenance associated with our exchange server upgrade, including data encryption and

wireless security software licensing, as well as for toner cost and usage. We had greater need for expert assistance to meet our responsibilities under the *Government Advertising Act, 2004*, including the cost of independent research into how closely our judgments about partisanship in the advertising we review mirror public opinion. This increase was somewhat offset by lower statutory costs for other expert assistance on our VFM audits, resulting in

a net increase of about \$9,000. Our training costs increased by a modest 1.6% this year, or by \$3,000, but have risen by 55% over the last two years. These increased expenditures on training have helped to ensure that our staff are able to adhere to the many recent changes in standards and have increased their level of subject expertise to handle complex value-for-money audits.

## 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, 2009 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 that 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 Adams & 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, FCA  
Auditor General

Gary R. Peall, CA  
Deputy Auditor General

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## AUDITOR'S 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, 2009 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, 2009 and the results of its operations 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.

*Adams & Miles LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
July 16, 2009

## Office of the Auditor General of Ontario

### Statement of Financial Position

As at March 31, 2009

	2009 \$	2008 \$
<b>Assets</b>		
Current		
Cash	293,306	521,868
Due from Consolidated Revenue Fund	663,149	374,144
	<u>956,455</u>	<u>896,012</u>
Capital Assets (Note 3)	581,060	598,271
<b>Total assets</b>	<u>1,537,515</u>	<u>1,494,283</u>
<b>Liabilities</b>		
Accounts payables and accrued liabilities	1,590,455	1,680,012
<b>Accrued employee benefits obligation</b> [Note 4(B)]	1,997,000	2,014,000
<b>Net assets (Accumulated deficit)</b>		
Investment in capital assets (Note 3)	581,060	598,271
Accumulated deficit [Note 2(B)]	(2,631,000)	(2,798,000)
	<u>(2,049,940)</u>	<u>(2,199,729)</u>
<b>Total liabilities and accumulated deficit</b>	<u>1,537,515</u>	<u>1,494,283</u>


#### Commitment (Note 5)

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, 2009

	<b>2009 Budget \$</b>	<b>2009 Actual \$</b>	<b>2008 Actual \$</b>
<b>Revenue</b>			
Consolidated Revenue Fund – Voted appropriation	16,244,700	16,244,700	15,307,600
<b>Expenses</b>			
Salaries and wages	9,588,200	8,434,594	8,088,057
Employee benefits (Note 4)	2,272,300	1,844,038	1,910,786
Office rent	1,053,400	1,051,024	1,047,624
Professional and other services	1,640,700	1,775,885	1,525,747
Amortization of capital assets	–	298,550	276,514
Travel and communication	418,800	332,043	397,196
Training and development	387,700	205,077	201,882
Supplies and equipment	474,200	173,326	159,485
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	219,400	245,438	228,936
<i>Government Advertising Act</i>	50,000	35,209	21,770
<i>Statutory services</i>	90,000	88,850	93,513
Total expenses (Note 7)	16,244,700	14,534,034	14,001,510
<b>Excess of revenue over expenses</b>		1,710,666	1,306,090
<b>Less: returned to the Province</b>		(1,560,877)	(1,607,695)
<b>Net deficiency/ (excess) of revenue over expenses (Note 2B)</b>		(149,789)	301,605
<b>Accumulated deficit, beginning of year</b>		2,199,729	1,898,124
<b>Accumulated deficit, end of year</b>		2,049,940	2,199,729

See accompanying notes to financial statements.



## Office of the Auditor General of Ontario

### Statement of Cash Flows For the Year Ended March 31, 2009

	2009 \$	2008 \$
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>Cash flows from operating activities</b>		
Net excess/(deficiency) of revenue over expenses	149,789	(301,605)
Amortization of capital assets	298,550	276,514
Accrued employee benefits obligation	(17,000)	19,000
	<u>431,339</u>	<u>(6,091)</u>
<b>Changes in non-cash working capital</b>		
Increase in due from Consolidated Revenue Fund	(289,005)	(8,175)
Increase (decrease) in accounts payable and accrued liabilities	(89,557)	508,314
	<u>(378,562)</u>	<u>500,039</u>
<b>Investing activities</b>		
Purchase of capital assets	<u>(281,339)</u>	<u>(309,909)</u>
<b>Net increase (decrease) in cash position</b>	(228,562)	184,039
<b>Cash position, beginning of year</b>	<u>521,868</u>	<u>337,829</u>
<b>Cash position, end of year</b>	<u>293,306</u>	<u>521,868</u>

See accompanying notes to financial statements.

# Office of the Auditor General of Ontario

## Notes to Financial Statements

March 31, 2009

### 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.

In addition, 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.

As required by the *Fiscal Transparency and Accountability Act, 2004*, the Auditor General was also required to review and report on the reasonableness of the 2007 Pre-Election Report prepared by the Ministry of Finance.

### 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 prepared on the 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 voted appropriation is 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 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

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# Office of the Auditor General of Ontario

## Notes to Financial Statements

March 31, 2009

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### 2. Significant Accounting Policies (Continued)

#### (D) FINANCIAL INSTRUMENTS

The Office's financial instruments consist of cash, due from Consolidated Revenue Fund, accounts payable and accrued liabilities, and accrued employee benefits obligation. Under Canadian generally accepted accounting principles, financial instruments are classified into one of five categories – available-for-sale, held-for-trading, held-to-maturity, loans and receivables, or other financial liabilities. The Office classifies its financial assets and liabilities as follows:

- Cash is classified as held for trading and is recorded at fair value.
- Due from Consolidated Revenue Fund is classified as loans and receivables and is valued at cost which approximates fair value given its short term nature.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at cost which approximate fair value given their short term maturities.
- The accrued employee benefits obligation is classified as another financial liability and is recorded at cost based on the entitlements earned by employees up to March 31, 2009. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made as it is not expected that there would be a significant difference from the recorded amount.

It is management's opinion that the Office is not exposed to any interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

#### (E) 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.

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# Office of the Auditor General of Ontario

## Notes to Financial Statements

March 31, 2009

### 3. Capital Assets

	2009		2008
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computer hardware	586,793	349,057	237,736
Computer software	210,058	133,670	76,388
Furniture and fixtures	312,846	169,747	143,099
Leasehold improvements	235,868	112,031	123,837
	<u>1,345,565</u>	<u>764,505</u>	<u>581,060</u>
			<u>598,271</u>

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

### 4. 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's employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Office's annual payments to the fund. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Office. The Office's required annual payments of \$625,585 (2008 - \$599,451), are included in employee benefits expense in the Statement of Operations and Accumulated Deficit.

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2009

#### 4. Obligation for Future Employee Benefits (Continued)

##### (B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

Although the costs of any legislated severance and unused vacation entitlements earned by employees are recognized by the Province when earned by eligible employees, these costs are also recognized in these financial statements. These costs for the year amounted to \$108,000 (2008 – \$346,000) and are included in employee benefits in the Statement of Operations and Accumulated Deficit. The total liability for these costs is reflected in the accrued employee benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities, as follows:

	2009 \$	2008 \$
Total liability for severance and vacation	2,631,000	2,798,000
Less: Due within one year and included in accounts payable and accrued liabilities	(634,000)	(784,000)
Accrued employee benefits obligation	<u>1,997,000</u>	<u>2,014,000</u>

##### (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.

#### 5. 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:

	\$
2009-10	525,369
2010-11	525,369
2011-12	306,465

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2009

#### 6. 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 2008.

Name	Position	Salary	Taxable
		\$	Benefits \$
McCarter, Jim	Auditor General	242,772	384
Peall, Gary	Deputy Auditor General	178,672	295
Amodeo, Paul	Director	136,789	231
Cheung, Andrew	Director	136,789	231
Chiu, Rudolph	Director	120,375	214
Fitzmaurice, Gerard	Director	134,588	231
Klein, Susan	Director	136,350	231
Mazzone, Vince	Director	122,549	218
McDowell, John	Director	134,588	231
Mishchenko, Nicholas	Director	136,789	231
Sciarra, John	Director of Operations	120,375	214
Bell, Laura	Audit Manager	105,467	186
Brennan, Michael	Audit Manager	108,573	186
Chagani, Hassnain	Audit Manager	108,573	186
Cumbo, Wendy	Audit Manager	108,573	186
Gotsis, Ioanna	Audit Manager	108,573	186
MacNeil, Richard	Audit Manager	107,509	186
Mok, Rita	Audit Manager	108,573	186
Pelow, William	Audit Manager	104,607	182
Rogers, Fraser	Audit Manager	110,349	186
Tersigni, Anthony	Audit Manager	108,573	186
Young, Denise	Audit Manager	108,573	186
Wiebe, Annemarie	Manager, Human Resources	108,573	186

#### 7. 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 and of leasehold improvements 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:

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2009

#### 7. Reconciliation to Public Accounts Volume 1 Basis of Presentation (Continued)

	2009	2008
	\$	\$
Total expenses per Public Accounts Volume 1	14,683,823	13,699,905
purchase of capital assets	(281,339)	(309,909)
amortization of capital assets	298,550	276,514
change in accrued future employee benefit costs	(167,000)	335,000
Total expenses per audited financial statements	<u>14,534,034</u>	<u>14,001,510</u>

#### 8. Management of Capital

The Office's capital consists of cash. In managing cash the Office maintains sufficient funds to meet estimated cash requirements each month and requisitions the necessary amount from the Ministry of Finance on a monthly basis. The Office's bank account is pooled with other government accounts for cash management purposes in order to reduce the province's borrowing requirements and/or to earn interest. Accordingly, the Office's capital is not at risk.

#### 9. Comparative Figures

Certain of the 2007/08 figures have been reclassified to conform to the presentation adopted for the 2008/09 fiscal year.